

A Multi-unit Franchising Perspective of the New Dominant Logic for Marketing

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Abstract

Traditional dominant marketing logic rests on an inherited model of exchange from economics, representing tangible resources and embedded value. New perspectives have emerged, representing intangible resources and cocreation of value. The evolving logic incorporates a shift from operand and static resources to operant and dynamic resources. In this study the emergence of a new dominant logic for marketing is conceptualised within a franchise system network, with particular emphasis on entrepreneurship and multi-unit franchising. Multi-unit franchising is selected due to being the latest paradigm in franchising. The outcome is a conceptual synergistic approach toward an evolving new dominant service-centred logic for multi-unit franchising. Implications and managerial recommendations include the introduction of initiatives to enhance multi-unit franchising.

Introduction and Purpose

The traditional dominant logic on which the understanding of exchange and marketing is based is centered on a manufactured output, which is grounded heavily in microeconomic theory developed during the Industrial Revolution, when surplus tangible output was regarded as the foundation of national wealth. Marketing has however evolved from operand and static resources toward a focus on operant and dynamic resources. This in turn represents a shift from the exchange of tangible goods toward the exchange of services. This paper conceptualises the synergy between the new dominant logic for marketing (application of specialized knowledge) as presented by Vargo & Lusch (2004) with that of franchising (distribution of specialized knowledge). The synergy is further specified on the link of entrepreneurship and multiple-unit franchising (Altinay & Roper, 2005), due to the integrative approaches of the multi-unit franchising paradigm and facilitating marketing logic.

New Dominant Logic for Marketing

The evolution of marketing includes the movement toward a new dominant logic that represents a shift in focus away from resources that are relatively static, that are captured and acted upon; toward a focus on resources that are dynamic and capable of changing and creating other resources (Vargo & Lusch, 2004). The evolving logic represents a shift from operand- to operant-resources, characterised by the exchange of goods (tangible outputs) toward the exchange of services (intangible outputs). Constantin & Lusch (1994) define operand resources as resources on which an operation or act is performed to produce an effect. Operant resources are in turn resources that produce effects, that is, the employment and combination of operand resources. Services exchange is defined as the application of specialized competences consisting of knowledge and skills, through deeds, processes and performances for the benefit of other entities or the entity itself. All centered on the distinction between operand and operant resources, Vargo & Lusch (2004) differentiated between the goods- and service-centered dominant logic. The six attributes to explore

differences include (1) primary unit of exchange, (2) role of goods, (3) role of customer, (4) determination and meaning of value, (5) firm-customer interaction and (6) source of economic growth. Vargo & Lusch (2004) identify the foundational premises (FP's) of the emerging paradigm as (1) skills and knowledge are the fundamental unit of exchange, (2) indirect exchange masks the fundamental unit of exchange, (3) goods are distribution mechanisms for service provisions, (4) knowledge is the fundamental source of competitive advantage, (5) all economies are service economies, (6) the customer is always a coproducer, (7) the enterprise can only make value propositions, and (8) a service-centered view is inherently customer oriented and relational. The distinction between operand and operant resources are depicted in the first three columns of Table 1. We now examine the integration of franchising as a facilitator toward a service-centered orientation.

New Dominant Logic for Franchising

Business format franchising, created in the 1950's, results from the evidence that the outlet itself could be a vehicle for small business activity (Mendelsohn, 2003). These phases predominantly represented the operand and static resources view of marketing evolution. The link of franchising to entrepreneurship (Altinay & Roper, 2005; Bygrave, 2004; Johnson, 2004; Lindsay & McStay, 2004, Maritz & Nieman, 2005, Michael, 2003; Spinelli, 1997) evolve franchising toward an operant and dynamic approach (Vargo & Lusch, 2004). This dynamic approach is further evident in the growth of multiple-unit franchising, whereby franchisees in the system own two or more franchised outlets or units (Grunhagen & Mittelstaedt, 2001). Franchising is a method of marketing goods and services, which knows almost no boundaries (Mendelsohn, 2004). It is seen as an entrepreneurial option towards creating and developing ventures (Maritz & Nieman, 2005). Michael (2003) mentions franchising as a technique for entrepreneurs in service industries to assemble resources in order to rapidly create large chains and gain first mover advantage. Mendelsohn (2004) emphasises that a franchise relationship is not self sustaining, with basic issues being that the franchise cannot succeed without successful franchisees, franchisors to devote resources to enhance relationships, franchisor duty to establish and sustain a viable business, and that the franchisor must promote the basic principles on which franchising is based. The link to entrepreneurship is that franchising is a capital efficient growth model. A review of multi-unit franchising identifies this dynamic entrepreneurial activity as a catalyst in the growth of international franchising (Altinay & Altinay, 2004). Studies on the entrepreneurial orientation of multi-unit franchisees (Maritz, 2005) link franchising to the foundation premises (Vargo & Lusch, 2004) of new marketing logic. Furthermore, entrepreneurial activity within the franchise system (Lindsay & McStay, 2004) is correlated to the application of specialized skills and knowledge (FP 1). The movement from single to multi-unit franchising, together with system benefits (Grunhagen and Middelstaedt, 2001) mirrors the move toward dynamic exchange relationships that involve performing processes and exchanging skills and/or services in which value is cocreated with the consumer (Vargo & Lusch, 2004).

Discussion

To synergise franchising and the service-centered logic approach, the dynamics of the franchise system are explored. The exploratory research links the new dominant logic for marketing foundational premises (FP's) with franchising literature and research. The outcome is a conceptual approach of integration between the service-centered logic approach and franchising, represented in Table 1.

FP (1) identifies the application of specialized skills and knowledge as the fundamental unit of exchange. Franchisors are seen as entrepreneurial development agents, portraying specialized knowledge and skills toward the creation and development of ventures (Bygrave, 1997). They establish and manage businesses for the main purpose of profit and growth through specialised leadership ability, innovative behaviour and creativity and flexibility (Zimmerer & Scarborough, 1996). Services offered by the franchise system are regarded as operant resources, related to knowledge and skills of participants in the franchise system. Of particular cognisance, and most often viewed as a dominant characteristic of dynamic franchise systems, is the development of multi-unit franchisees (Grunhagen & Mittelstaedt, 2001). These franchisees portray an entrepreneurial orientation (Maritz, 2006), applying specialized skills and knowledge. FP (2) portrays indirect exchanges as masking the fundamental unit of exchange. Customers and franchisees are active participants in relational exchanges and coproduction, with franchisees being local market representatives. Products are transformed toward developing service oriented interactions (operant resources). Franchisees are local agents of the franchisor, and are located at the point of purchase or service, being adequately equipped to adapt to local market conditions (Mendelsohn, 2004). This in turn enhances the relationship value of service exchange between franchisees and the customer. Multi-unit franchising however somewhat negates this FP, as the owner is obviously not hands on at all his/her multi-units, relying on managers and staff. This identifies the franchise paradox, whereby the notion of owner-involvement is diluted (Grunhagen & Mittelstaedt, 2001). FP (3) identifies goods as distribution mechanisms for service provisions. The operant view is highlighted in a franchise system, whereby local market conditions and knowledge link the franchisees and customer (Nieman, 1998). Customers not only purchase products from the system, but interact with the franchise system due to service related benefits such as consistency, uniformity, guarantees, value and quality (Agmen-Smith, 2003). FP (4) compliments the fundamental premise of franchising, that of knowledge being the fundamental source of competitive advantage. The franchisor is usually regarded as an expert in the particular industry, and decimates this knowledge to local market adaptation by franchisees (Mendelsohn, 2003). Furthermore, market knowledge and expertise facilitates supply chain management, bearing benefits for the system. Such advantages may be discounts, supplier rebates and allowances, supply and delivery benefits and marketing communication benefits. Franchisees have the disposal of the franchisor's expertise, benefits of brand name, training and development, early stage advice, social entrepreneurial activities of integrating opportunities from fellow franchisees and the services of franchise system field staff (Deakins & Freel, 2003). These benefits regarding the disposal of franchisor knowledge enhance the competitive advantage of franchisees (Lord, 2003). FP (5) identifies all economies as service economies. Business format franchising is based upon the foundation of providing consistent quality and uniformity within each system (Germann, 2002). The customer of the franchisee is responsible for perceiving value within the system, identifying the operant nature of the service relationship. Franchising is however unique in the determination of service value, as Franchisees themselves perceive and determine value within the function of the system (between franchisor and franchisee). FP (6) highlights the customer centric approach, and views the customer as coproducer. Franchisees are available at the point of purchase, allowing quick decision making, adaptation to local market conditions and involvement with local markets. Since the franchisee is the owner of the business or franchise unit, the motive to link profit with service quality is enhanced. Involving the customer as coproducer enhances service profit chain (Heskett, 2002) initiatives of retention, related sales and referrals within franchise systems (Maritz, 2003). FP (7) identifies the customer as determining value and participating in creating it through

interaction. The traditional approach to franchising sees the franchisor as value creator (operand resources), embedding policies and procedures upon the franchisee (Mendelsohn, 2003). Emergent approaches, particularly regarding multi-unit franchising, see franchisees interacting at local market levels. As such, the franchisor only makes value propositions, whereas the ultimate consumer determines value. This adopts the operant view with regard to emerging marketing logic. FP (8) is a culmination of the emerging service-centred dominant logic, stating that a service-centred view is customer oriented and relational. This places emphasis on the dual nature of relationships in franchise systems, between franchisor and franchisee, and between franchisee and customer. The franchisor thus regards the franchisee as system customer, and the franchisee regards the final consumer as customer (Mendelsohn, 2004). Benefits of multi-unit franchising facilitate a customer centric approach, as current franchisees are already operative in the system, understand current franchise system procedures and most often are better performing franchisees (Altinay & Altinay, 2004). As such, these franchisees are prone to customer orientation and relational activities at local market levels (Grunhagen & Mittelstaedt, 2001). The eight FP's of the service-centered dominant logic as identified by Vargo & Lusch (2004) correspond closely to the service logic as portrayed by business format franchising. The foundational premises (FP1-FP8) correlate with the expertise and merits of franchising (Deakins & Freel, 2003; Mendelsohn, 2003), whereas a significant association is seen between FP's and multi-unit franchisees (Grunhagen & Mittelstaedt, 2001).

Implications

The service-centered dominant logic for franchising has some important implications for both marketers and franchise system participants. Since the franchise system is a means of distribution and expansion, it has a direct effect on marketing tactics and strategy. Marketers of franchise systems need to look at the service-centered logic from a customer centric point of view. As such, the customer is seen as a coproducer of value, and the franchise system is merely a producer of value. This involves initiatives to get closer to the customer, such as customer feedback and communication avenues between franchisee and customer (other than tangible resources). A more dominant implication is the franchising link to entrepreneurship. As an expansion mechanism, it is beneficial for franchisors to introduce franchisees exhibiting an entrepreneurial orientation. Such franchisees have been seen to be catalysts in multi-unit franchising. Other franchise managerial implications include franchisors incentivising current franchisees to become multi-unit franchisees.

Conclusion

The models on which much of traditional marketing logic was based rested on economic activities in the production of tangible outputs. The emerging approach however sees the introduction of a service-centered dominant logic of exchange. In evolving to a new dominant logic for marketing, eight foundational premises have been identified; these range from the application of specialized skills and knowledge, to a service-centered customer oriented and relational view. Focus transpires from operand resources (resources that are relatively static) toward operant resources (resources that dynamic and capable of changing and creating other resources). Evolution of franchising shares many of the foundational premises of the new dominant logic for marketing. The introduction of franchising as an entrepreneurial expansion option, coupled with multi-unit franchising facilitates an operant approach. This is

particularly evident in the entrepreneurial orientation and activities of innovativeness, proactivity and creativity of franchise system participants. Franchisors and multi-unit franchisees are positioned to implement resources that are dynamic and capable of changing and creating other resources. Furthermore, multi-unit franchisees are located at the point of customer interaction, facilitating a service-centered dominant logic of exchange. Business implications include the motivation to enhance multi-unit franchise systems, with corresponding implications for synergising the new dominant logic for marketing to that of entrepreneurial multi-unit franchising expansion. Further research opportunities are identified in empirically evaluating the intangible, continuous and dynamic nature of service-centered logic in multi-unit franchise systems.

Table 1: Distinguishing the Logic of the Goods- and Service-Centered Views with Franchising

	Traditional Goods-Centered Dominant Logic	Emerging Service-Centered Dominant Logic	Emerging Franchise-Centered Dominant Logic
Primary unit of exchange	People exchange for goods. These goods serve primarily as <i>operand resources</i> .	People exchange to acquire the benefits of specialized competences (knowledge and skills), or services. Knowledge and skills are <i>operant resources</i> .	Franchisors as entrepreneurial development agents with specialized knowledge and skills.
Role of goods	Goods are <i>operand resources</i> and end products. Marketers take matter and change its form, place, time, and possession.	Goods are transmitters of <i>operant resources</i> (embedded knowledge); they are intermediate “products” that are used by other operand resources (customers) as appliances in value-creation processes.	The relationship value of service exchange between franchisor, franchisee and customer is emphasised (operant resources)
Role of customer	The customer is the recipient of goods. Marketers do things to customer; they segment them, penetrate them, distribute to them, and promote to them. The customer is an <i>operand resource</i> .	The customer is a coproducer of service. Marketing is a process of doing things in interaction with the customer. The customer is primarily an <i>operant resource</i> , only functioning occasionally as an operand resource.	Franchisees available at the point of purchase/service, adaptation to local market conditions, service quality enhanced (operant resources)
Determination and meaning of value	Value is determined by the producer. It is embedded in the <i>operand resource (goods) and is defined in terms of “exchange-value”</i>	Value is perceived and determined by the consumer on the basis of “value in use.” Value results from the beneficial application of <i>operant resources sometimes</i> transmitted through operand resource. Firms can only make value propositions.	The customer of the franchisee is responsible for perceiving value in the system (operant nature of service relationships)
Firm-customer interaction	The customer is an <i>operand resource</i> . Customers are acted on to create transactions with resources.	The customer is primarily an <i>operant resource</i> . Customers are active participants in relational exchanges and coproduction.	Multi-unit franchising paradox, entrepreneurial development opportunity and close to customer (operant resource)
Source of economic growth	Wealth is obtained from surplus tangible resources and goods. Wealth consists of owning, controlling, and producing <i>operand resources</i> .	Wealth is obtained through the application and exchange of specialized knowledge and skills. It represents the right to the future use of <i>operant resources</i> .	Franchising as an entrepreneurial option toward the creation and development of ventures. Multi-unit franchisees exhibiting entrepreneurial orientation.

Source: adapted from Vargo & Lusch, 2004. Evolving to a new dominant logic for marketing, Journal of Marketing 68, 1-17.

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