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Strategic Interactions in Franchise Relationships

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6 The STIP system

Section 1 introduces the SCTs for this system, while sections 2 to 5 discuss the developments of the franchise partners' perceptions of the independent variables. The indicators used for these variables are summarized in Appendix 2. Section 6 discusses the responses that franchise partners adopted toward each other during both SCTs. Section 7 then takes a closer look at individual franchise relationships by analyzing which independent variables influenced the franchise partners' adoption of responses. Finally, section 8 presents the three types of conclusions (see section 4.3.5) based on the STIP system.

For the meanings of abbreviations used in this chapter, please refer to Appendix 11.

6.1 Historical sketch of STIP and an introduction to its SCTs

6.1.1 Historical sketch of STIP

STIP had always had the same franchisor as DA, and for details about the history of the Druggists' Association, Dynaretail and Dynadro, please refer to section 5.1. In 1989, the Druggists' Association started the STIP system for DA franchisees who could not or did not want to meet the increased requirements at DA. STIP consisted of smaller drugstores located in suburbs or villages with a restricted sales area and relatively low turnover levels. STIP franchisees often had other activities alongside their drugstores, such as beauty salons and post office counters. They did this because they could not make a living from drugstore activities alone. STIP had fewer requirements than DA in terms of fees, frequency of promotional activities and automatically supplied goods. From STIP's start, the Board of the Druggists' Association tried to convince smaller DA franchisees to switch to STIP so it could further increase the requirements for DA.

Fig. 6.1 illustrates the different levels of analysis for STIP. The broken lines around STIP are in bold because this chapter specifically focuses on STIP.

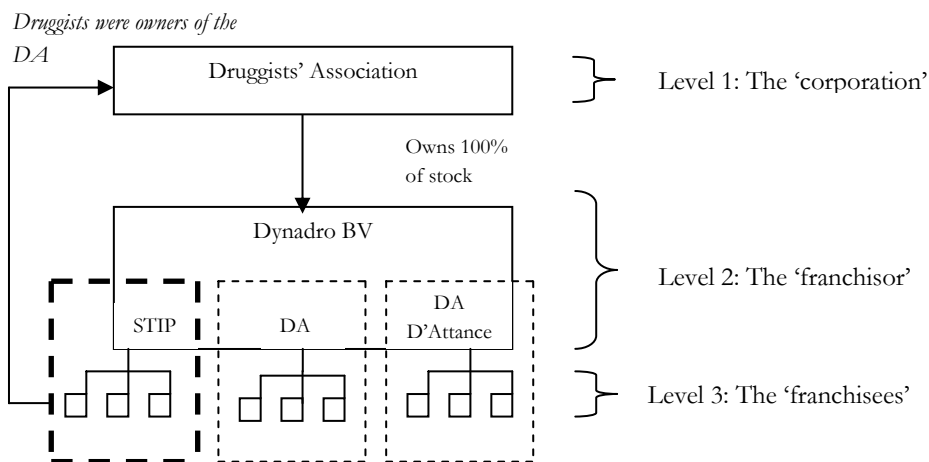


Fig. 6.1: The STIP system from January 2002 to January 2004

For STIP, this study will also focus on two SCTs. SCT3 focuses on the changes at STIP at the start of Dynaretail in 1991 ('Reanimation': see section 6.1.2). As pointed out in Chapter 5, the Dynaretail management (management1) wanted to develop different drugstore systems with different business formats with a more or less standardized approach and a uniform identity vis-à-vis customers. When SCT3 was introduced, STIP already existed, but it was a small system and not very uniform. Management1 wanted to continue with STIP because it was suitable for smaller stores. However, management1 thought STIP needed to be 'reanimated' with its own business format and uniform look vis-à-vis customers, and it expected that such reanimation would make it more attractive to smaller DA druggists and other smaller druggists. This would enable STIP's growth and survival in the longer run. SCT4 focuses on the changes at STIP under management2 (see also SCT2 in Chapter 5). SCT4 involved three changes:

- The integration of STIP, DA and DA D'Attance into one DA system with a new commercial management.
- The introduction of a contract (the so-called 'FSO') that all druggists needed to sign in order to participate in the new DA system.
- The introduction of a new 'corporate governance structure' for Dynadro and the new DA system. For the STIP franchisees this meant that the name STIP would disappear, and they could continue under the new DA system. This also meant that they needed to sign the FSO.

SCT4 is called 'STIP's integration and renegotiation' (see section 6.1.3).

The developments at STIP and its central organization are summarized in a general timeline in Fig. 6.2.

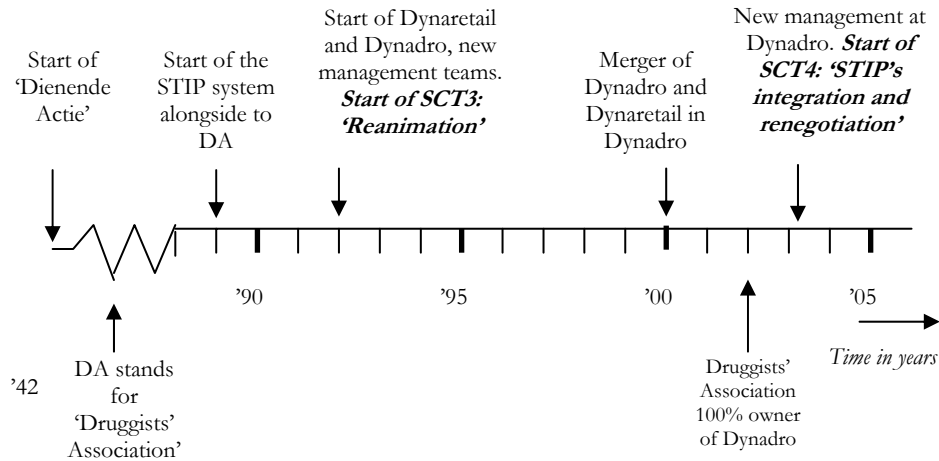


Fig. 6.2 A general time line for the STIP system and the Druggists' Association

6.1.2 Introduction to SCT3: 'Reanimation'

At STIP's start in 1989, the Druggists' Association expected that STIP would be able to grow rapidly to encompass about 200 STIP franchisees by attracting smaller DA

franchisees and independent druggists. However, STIP's growth had been disappointing (48 STIP franchisees in 1991 and 67 in 1993). This stagnating growth came as a result of a combination of two factors: on the one hand, STIP attracted only a few smaller DA druggists and, on the other hand, several existing STIP franchisees turned out to be too small to survive and exited STIP.

STIP attracted only a few DA franchisees for the following two reasons.

- First, STIP had a negative image among DA franchisees. Most of them saw STIP as a system for DA franchisees who could not meet the DA requirements and whose stores were not viable. From STIP's start, the Board of the Druggists' Association had tried to convince several smaller DA franchisees to switch to STIP, but most DA franchisees saw it as a 'demotion' and they felt as if they were 'thrown out of the DA family'. The druggists who did make the switch felt that STIP was less important for the Druggists' Association, and the Board did not pay attention to them. One STIP franchisee expressed this feeling of inferiority as follows: *'The STIP druggists were the stepchildren of the DA. One perfect example: once we were at a meeting in Drachten with a big dinner and a separate meeting for STIP and a separate meeting for DA. After that there was a concert by Marco Borsato (a famous Dutch singer, EC). And there the sheep were separated from the goats. When our STIP meeting finished, Marco Borsato was already singing and all the DA druggists were standing there close to the stage, and we could only watch from a distance. We felt that they had not taken us into account at all.'*
- Second, the DA franchisees did not want to abandon the DA name and did not understand why management wanted them to continue under an unknown name. Several smaller franchisees had asked management why they could not keep operating under the well-known DA name. Some druggists had been DA franchisees for decades, and they felt they were the ones who had made DA so well known, and suddenly they were being asked to switch to some system with a completely unknown name. Several franchisees proposed a separate DA module with lower requirements for franchisees with smaller stores, but which could participate in the national activities of DA.

The above situation illustrates the starting point for management¹ concerning STIP. Management¹ was aware of these issues, but it expected that a 'reanimation' of STIP could make it a well-known system for franchisees in villages. It thought it could attract more druggists and that its growth objectives for STIP could be realized. At Dynaretail's start, DA still consisted of several smaller franchisees who, according to the management, would be better off at STIP but who had not switched due to STIP's negative image. According to management¹, the smaller DA franchisees needed to switch so they would not hinder the development of the DA system.

As the first step in STIP's reanimation, on February 4, 1993, management¹ organized an 'inaugural meeting'⁴⁵ to introduce its plans for STIP's reanimation to the 67 STIP franchisees at that time. The reanimation of STIP was based on four changes. First, management¹ wanted to slightly lower the positioning of STIP by modifying the assortment, introducing a new look and new promotional materials. Second, it wanted to obligate certain business format elements for the STIP franchisees, such as shelf designs, promotional activities, and store look. Third, it promised to appoint a special STIP-manager and regional managers who would be responsible for all activities concerning

⁴⁵ The STIP name already existed, but it was such a loose system that it was not really considered a system. Therefore, the term 'inaugural' was used.

STIP. Fourth, management1 introduced a Board of Participants that was specifically for STIP.

6.1.3 Introduction to SCT4: ‘STIP’s integration and renegotiation’

Management2 reconsidered the existence of STIP and it came to the conclusion that it had still grown less than projected in the previous years. At its peak, STIP had about 150 stores, while management1 had always thought this needed to be at least 200 to survive. Furthermore, research had shown that STIP had a brand awareness of only 7%, while DA was known by more than 90% of customers.

Management2 wanted all Dynadro’s systems to benefit from the well-known DA name and wanted to integrate the systems into one DA system with a new business management. The stores would all operate under the DA format, but they would be part of different modules: DA-Basic, DA-Core and DA- Beauté (see section 5.1.3). For most STIP franchisees, STIP’s integration into DA meant that they would operate under the ‘DA-Basic’ format, which was suitable for stores in villages and suburbs with a restricted sales area. As pointed out in section 5.2.1, the differences between the formats were mainly in assortment and store look. DA-Basic stores could complement their assortments with a relatively large number of non-drugstore-related goods, such as postcards, magazines, and toys. With respect to store appearance, management2 tried to keep investment requirements for the DA-Basic format low. According to management2, the STIP stores looked the least like a DA store, and these needed to be the first changed to the new store look. Management wanted the store exteriors to be changed to the new DA logo at least within the first fourteen weeks of 2004⁴⁶.

Besides the change to the new format, the STIP franchisees also needed to sign the FSO to become part of the renewed DA system. Furthermore, the introduction of the new corporate governance structure also influenced the STIP franchisees. These changes have already been discussed in section 5.1.3.

6.2 Strategic compatibility

This section will discuss the strategic compatibility between the franchise partners for the five franchise system characteristics. Each subsection consists of the following parts: ‘*What the franchisor wanted*’, ‘*What franchisees wanted*’, and ‘*What actually happened*’.

6.2.1 Strategic compatibility regarding positioning during SCT3

What the franchisor wanted

With respect to the assortment, management1 thought the assortment of STIP had been too specialized before STIP’s reanimation; they were specialized in health and had relatively few cosmetics. The STIP franchisees had thrown out the low margin products over time because supermarkets and discounting drugstore systems had started offering these products. According to management1, the reintroduction of the low margin products was even more important for STIP than for DA because STIP was located in villages where druggists needed to keep customers from going to the city center for these products.

⁴⁶ However, due to some practical problems this was delayed for several months.

Eventually, management intended to create several products with a STIP brand name that would be cheaper than the quality brands and that would create 'bonding' with customers.

Management1 wanted STIP to have a broad assortment of health and popular care products, combined with some non-drugstore-related products in order to increase the traffic in the stores. The luxury assortment would be just barely available at STIP because customers would go to city centers for them. In other words, management1 wanted STIP stores to be the 'neighborhood' drugstores where customers could buy their day-to-day drugstore products for attractive prices.

The Dynaretail business plan categorized STIP's price level as medium, but management1 wanted to make the prices lower in order to be more competitive. Therefore, it intended to introduce certain products that would always have a low price and would be given extra attention in the stores.

Before the reanimation, STIP had not had its own promotional activities, and management1 introduced both theme and promotional brochures that were specific for STIP. The theme brochures would give specific health information to emphasize that STIP franchisees were also good at giving advice. The promotional brochures would support the attractive prices for the daily drugstore products and the non-drugstore-related products. The promotional brochures contained non-drugstore-related products that were sent automatically to the franchisees. The frequency of these promotional brochures and the number and amount of automatically supplied products related to it were lower than at DA. However, just as for DA, the frequency of the STIP brochures would gradually increase over time.

Additionally, management1 wanted to introduce a new store look with a new store interior and store exterior. The white, yellow and pink colors would give STIP a 'fresh' and bright look.

What franchisees wanted

According to a former manager, STIP franchisees were less resistant to the changes than the DA franchisees. Most STIP franchisees agreed that they needed a broad assortment at their locations. Several STIP franchisees did not have problems with the non-drugstore-related products as such. Most of the problems were in the quantity of non-drugstore-related products that were sent to the franchisees (just as in the DA case). The franchisees thought they had too much of these products and a lot of them remained unsold, which cost the franchisees a lot of money. According to several franchisees, these problems became greater over time because the number of promotional brochures and non-drugstore-related products gradually increased.

As to the desired price level, franchisees differed in their opinions. Some franchisees argued that the low prices in the villages were less necessary because customers always perceived the stores in the city center to be cheaper. On the other hand, other franchisees argued that they needed to stress their attractive prices in order to attract customers to their stores.

With respect to the new store appearance, STIP franchisees were hesitant to change and they wanted to know how they would benefit from it. The STIP stores were smaller stores that did not have the means to make huge investments. Additionally, these franchisees saw their turnover level as stable and therefore they expected that extra investment would not result in higher profits. Furthermore, many STIP franchisees liked their stores the way they were, and they were satisfied with their stores' profits. Several older franchisees coming up to retirement did not want to make huge investments anymore.

What actually happened

The changes in positioning occurred more slowly than planned by management¹. This was especially true for the change to the new store look because several STIP franchisees did not want to make any extra investment. According to the former CEO, over time several new druggists had entered STIP that were not former DA franchisees, and they were more willing to adopt the proposed changes.

6.2.2 Strategic compatibility regarding positioning during SCT4

What the franchisor wanted

The STIP franchisees had to switch to the new DA-Basic format because STIP was going to be integrated with DA. As argued in section 5.2.2, management² still thought DA had too expensive an image which needed to be modified. Therefore, it proposed several changes: an increase in promotional activities, the introduction of 'Vast Laag' with fixed low prices for certain products, and the introduction of a new store look (the DA-2005 format). For the STIP franchisees the changes were even greater because they had to switch from STIP to DA.

This switch meant a change in the assortment, namely the change from STIP's own brand to DA's own brand⁴⁷. For DA-Basic, management² thought that non-drugstore-related activities would be more important than for DA-Core and DA-Beauté because these spread the risk of the DA-Basic druggists. These activities included, for example, post office counters, household articles, toys and magazines, and they were offered by other suppliers. Furthermore, the day-to-day drugstore products would be more important for DA-Basic because management² expected that luxury products would not attract customers in the villages.

One important change for STIP franchisees was the increase in the frequency of theme brochures and promotional brochures with non-drugstore-related goods attached to them. Before STIP's integration, the STIP stores had irregular promotional brochures that were sent out on average once every three weeks. With the change to DA, the frequency of promotional brochures would become much higher: once every two weeks on a regular basis.

Moreover, the STIP franchisees needed to renovate their stores to the new DA-2005 format. DA-Basic had the lowest investment requirements with tiled pavements or laminate.

What franchisees wanted

Most franchisees did not really notice a change in positioning. For them, the most important changes were the use of the nationally well-known DA name and DA's own brand products in the assortment instead of STIP products. Most of them considered these as positive developments because they already had some DA products and were satisfied with DA's own brand products.

Several STIP franchisees noticed that the customers' perceptions of their stores had changed since they had become DA. Their customers congratulated them for their switch to DA, as if it was some kind of status. Customers suddenly expected to find more products in the store and to be able to order very specific products via the druggist from

⁴⁷ Some STIP franchisees already had several DA brand products in their stores, but the DA brand assortment would become much bigger due to the switch to DA.

specialized suppliers. This possibility had always existed, but customers had never been aware of it. The other side of the coin was that customers thought the stores had become more expensive (although there was no difference in price level). This expensive image of DA had been around for years, and, with the new commercial management for DA, management² hoped to change this image. Several franchisees were confident that DA's price image would become better in the near future.

The STIP franchisees differed in their opinions about the frequency of promotional brochures and the number of non-drugstore-related products attached to them. Some were afraid that this number would increase a lot, while others expected it to decrease. The reason for this was the fact that management² made a new ratio for the distribution of promotional brochures and non-drugstore-related products. The number of brochures and non-drugstore-related products was related to the turnover levels of the franchisees, and not to the format they operated in (Basic, Core or Beauté). Therefore, there were differences in the number of brochures and non-drugstore-related products between DA-Basic druggists. Some franchisees still had problems with the non-drugstore-related products in their assortment, but they saw it as a necessity. They felt the market dictated it, and that they needed them to survive. Other franchisees did not have problems with the non-drugstore-related products as such, but they thought the quantities were too high, and they could not get rid of them (as had been the problem in previous years). For some other franchisees, the expectation that the frequency of promotional brochures, the number of non-drugstore-related products and therefore their cost level would increase was a reason to choose an alternative instead of DA (see section 6.3.4).

What actually happened

Initially, management² planned the contracts to be signed by January 1, 2004, and that from that time on the franchisees would start to change their stores to the new DA format. However, the 'deadline' for signing the contracts was delayed several times because negotiations over the contract took longer than expected. Because data collection took place up until March 2004 it was difficult to determine whether the positioning actually changed.

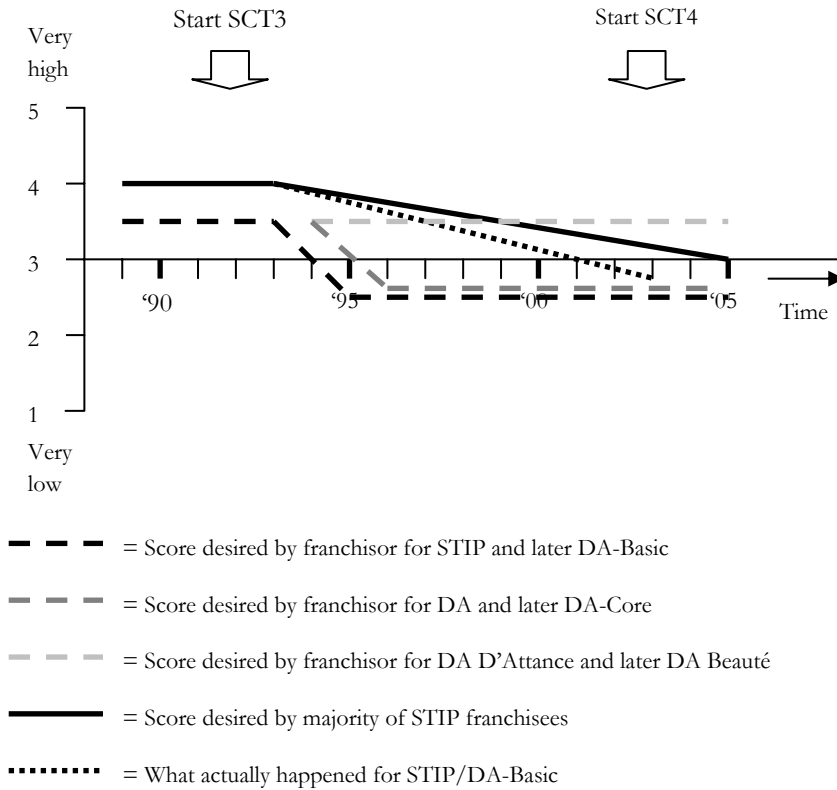


Fig. 6.3: Timeline for positioning

6.2.3 Strategic compatibility regarding degree of hardness during SCT3

What the franchisor wanted

Before STIP's reanimation, the only common element about STIP was the use of the STIP logo on the outside of the stores. Therefore, management1 wanted to introduce three changes with respect to obligatory business format elements:

- The introduction of promotional activities with automatically-supplied goods attached to them. As pointed out in 5.2.3, these promotional activities were the most important activities that needed to be obligatory according to management1. The frequency of promotional activities and the number of automatically supplied goods at STIP was much lower than at DA, and that is why several franchisees had changed from DA to STIP. With the change to STIP, these druggists had a lower number of automatically supplied goods than at DA. However, for STIP the number of promotional brochures and the automatically supplied goods slightly increased over time.
- The introduction of 'shelf designs' (see 5.2.3) in which the assortment was prescribed. According to a former manager, the practical workability of these shelf designs was lower at STIP than at DA because the STIP franchisees often had their

own furniture in which the prescribed grouping of the products did not fit. One requirement for the franchisees that was introduced over time was the addition of STIP's own brand products to the assortment.

- The introduction of a new store appearance (interior and exterior). Management1 tried to convince the STIP franchisees to change to this new appearance. However, most of them thought their stores were good the way they were and they did not want to change to the new store look. Entrants were required to adopt STIP's new store interior and exterior, but the management did not force the existing STIP franchisees to renovate.

With respect to obligatory services from the franchisor, management1 tried to convince the franchisees to purchase their products at Dynadro. The Druggists' Association's Articles⁴⁸ included the possibility of requiring a minimum amount of purchasing via the Druggists' Association. At the time, there were several STIP and DA franchisees who (partially) purchased their goods at other wholesalers, such as Brocacef.

During STIP's reanimation, automation and franchisee training did not play an important role because only a few STIP franchisees participated in these activities; these elements became more important at the time of STIP's integration and renegotiation.

In addition to requirements on business format elements and obligatory services, the Articles of the Druggists' Association also already included the possibility of imposing requirements aimed at the 'protection' of the DA system. One example was clause 7j which stated that DA and STIP franchisees were not allowed to participate in activities of other parties in the drugstore industry.

As was the case for the DA system, the degree of enforcement of the requirements for STIP franchisees was low. Before STIP's reanimation, several requirements for franchisees had already been mentioned in DA's Articles, but management1 was afraid that if it imposed these requirements the franchisees would leave STIP (and DA).

What franchisees wanted

According to the franchisees, STIP had always been a soft system. During the reanimation, most franchisees perceived the promotional activities with the automatically supplied goods as the only actual requirements for them. Although in the early phases of STIP's reanimation these requirements were not so strong, they became stronger over time. The frequency of promotional activities slightly increased and so did the number and amount of automatically supplied goods. Several STIP franchisees had problems with the type of goods that were sent in and with their amounts.

They perceived they still had freedom with respect to store interior and exterior. They were aware that management1 wanted to require a specific store appearance, but at the same time they perceived that management was not enforcing this. Management1, on the other hand, tried to convince the franchisees to adopt the new store appearance, but for various reasons STIP franchisees did not adopt it. These reasons included, for example, that franchisees did not have enough money to invest in the new store look, or franchisees did not like the new look.

⁴⁸ The Articles of the Druggists' Association consisted of the Articles themselves and the 'Regulations' in a separate document. When I refer to the Articles, this includes the Regulations.

What actually happened

In sum, although management¹ had several tools for imposing requirements on the franchisees by means of the Articles of the Druggists' Association, it did not do so because it was afraid that many franchisees would leave STIP and Dynadro would lose them as wholesale customers. Therefore, the actual degree of hardness was much lower than the degree of hardness desired by management¹.

6.2.4 Strategic compatibility regarding degree of hardness during SCT⁴

What the franchisor wanted

Management² intended to introduce several requirements for all DA franchisees, including for STIP franchisees who were expected to switch to the DA-Basic format. Therefore, for the desired degree of hardness by the franchisor during SCT⁴, please refer to section 5.2.4.

What franchisees wanted

With respect to obligatory business format elements, the promotional activities combined with the automatically supplied goods for a large part influenced the franchisees' perception of strategic compatibility on degree of hardness. Several STIP franchisees worried whether they would be able to adopt the new requirements that occurred with their switch to DA. They knew that DA had more frequent promotional activities, and they had heard stories of DA franchisees 'up to their necks' in automatically supplied goods. After management² presented its plans for integrating STIP into DA, it took some time before management could point out what this would mean for the STIP franchisees' requirements in terms of promotional activities, automatically supplied goods and investments in store appearance. For the majority of STIP franchisees this was a very important issue because it would influence their cost levels and therefore their profitability (OC profit, see 6.3). This resulted in several complaints by franchisees and a certain degree of distrust. The exact requirements and future cost levels had been unclear for several months, but eventually management² presented a format handbook in which all requirements for each format were established. Then it became clear that the stores' turnover levels would form the basis for the number of automatically supplied goods. For individual franchisees, this could mean either an increase or a decrease in costs with respect to promotional activities. Therefore, some franchisees perceived these changes as negative while others perceived them as positive.

The other requirements in the FSO (clauses 9, 26 and 27, see 5.2.4) also had an important influence on the franchisees' perception of the degree of hardness of the new DA system. Some franchisees perceived this as Dynadro taking over control of their drugstores. This was the same for DA franchisees as well as for STIP franchisees.

As was the case for DA franchisees, STIP franchisees were hesitant about investing in the new DA-2005 format because they were afraid of making major investments. One interesting issue is that some STIP franchisees who had already signed the FSO expected that they could convince the franchisor of why they should not adopt certain requirements, for example in automation or store look. The franchisor expected them to adopt certain requirements because these franchisees had signed the FSO, while in reality these franchisees expected that they could wriggle out of certain requirements.

What actually happened

As pointed out in section 5.2.4, it is difficult to determine whether the degree of hardness actually increased during SCT2 because the data collection for SCT2 took place up until March 2004. Nevertheless, during this process the franchisees' deadline for signing the FSO was postponed several times.

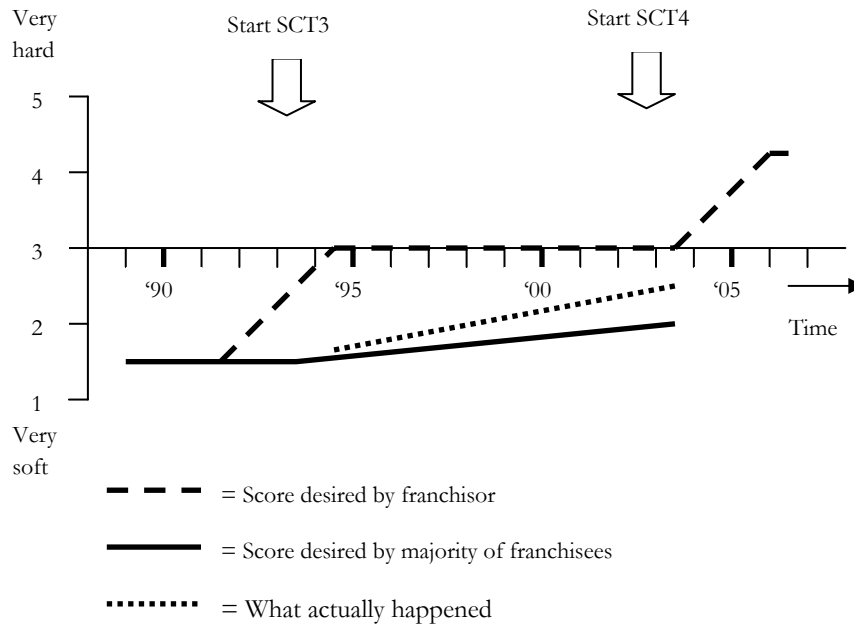


Fig. 6.4: Timeline for degree of hardness

6.2.5 Strategic compatibility regarding rate of innovation during SCT3

What the franchisor wanted

According to management1, the rate of innovation at STIP was low before STIP's reanimation. As was the case for DA, STIP franchisees were not eager to introduce new product groups or new forms of service to their drugstore assortments⁴⁹. Management1 wanted to increase the rate of innovation on the three levels of innovation differentiated in the research model. It wanted more introductions of new products and other business format modifications. Moreover, management1 thought the business format as a whole should be modified every six to seven years.

What franchisees wanted

With respect to the introduction of new products, several franchisees thought that the STIP system was too slow. One druggist pointed this out as follows: *'In the past, we've*

⁴⁹ Although several franchisees already had other product groups in their stores, such as magazines or toys, I am only discussing the rate of innovation for their drugstore activities.

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grumbled a lot. When there were new products you'd watch and see what your competitors did. When there were brochures from these competitors, these often very quickly included these new products. DA sometimes had them too, but DA was often slower than these competitors. But at STIP it was sometimes weeks or months later.'

According to this franchisee, this low rate of innovation on the product level was due to the fact that STIP was a small group of franchisees that was not attractive to suppliers when they wanted to do new product introductions. However, for the majority of STIP franchisees this was not really a problem because they were located in smaller villages and felt that customers did not consider the rapid introduction of new products as very important. They considered their turnover levels as stable and did not expect to increase their profits through a higher rate of innovation. Additionally, several STIP franchisees pointed out that the rapid introduction of new products involved a risk due to a greater chance of failure and the relatively small size of their stores. On the level of product groups and other business format adaptations and adaptations of the business format as a whole the STIP franchisees were even more careful because this involved even higher investments that were even more risky. Moreover, due to their relatively low turnover levels it would take a long time for them to recoup their investments.

What actually happened

The rate of innovation of the STIP system remained lower than management¹ was aiming for because franchisees did not want a higher rate of innovation, and management did not enforce requirements on this.

6.2.6 Strategic compatibility regarding rate of innovation during SCT4

What the franchisor wanted

Management² desired a certain rate of innovation that was more or less the same for all DA formats; management² wanted the rate of innovation to increase on all three levels of innovations. The desired changes have already been discussed in section 5.2.6.

What franchisees wanted

The STIP franchisees expected that when they switched to DA they would have a higher rate of innovation than before. Several STIP franchisees argued that they agreed with a higher rate of innovation on the product level because they felt that customers had become increasingly critical about this. However, other STIP franchisees were still careful with this because it involved a relatively large risk compared to their turnover levels. On the level of other business format modifications, an even larger group of STIP franchisees was careful about this due to the high investment as compared to their turnover levels, and so it was considered even riskier.

What actually happened

With regard to the degree of hardness, it is difficult to determine whether the rate of innovation really increased. As pointed out, the introduction and deadline for signing the FSO were delayed for several months. This made it rather difficult to introduce modifications through the whole DA system.

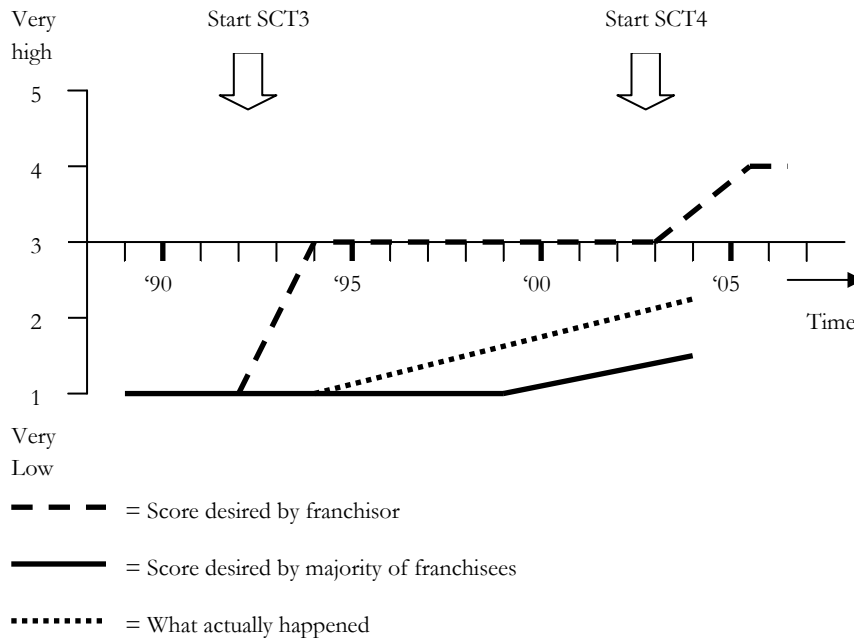


Fig. 6.5 Timeline for rate of innovation

6.2.7 Strategic compatibility regarding organization of franchisees' strategic participation during SCT3

What the franchisor wanted

As pointed out in section 5.2.7, management1 changed the organization of strategic participation for its franchisees during SCT1 (see 5.2.7 for the details). In addition to the three Boards of Participants for the DA system, management1 introduced one Board of Participants that was specific to the STIP system.

What franchisees wanted

As was the case at DA, there often was a difference in perception by STIP franchisees involved in strategic participation and those franchisees not involved in strategic participation. However, there were some exceptions: one of the interviewees who had been on the STIP's Board of Participants argued that management1 just did not listen to the members, and therefore he was very dissatisfied with strategic participation in the system. Moreover, the majority of STIP franchisees thought it was badly organized due to a lack of procedures (see 5.2.7).

What actually happened

The organization of strategic participation was low due to a lack of procedures. However, the majority of franchisees accepted this because they still perceived a large degree of freedom in running their businesses.

6.2.8 Strategic compatibility regarding organization of franchisees' strategic participation during SCT4

What the franchisor wanted, what franchisees wanted and what actually happened

For DA-Basic the changes in the organization of strategic participation desired by the franchisor were the same as for the other two formats. Additionally, the desired organization of strategic participation by the STIP franchisees did not differ much from the desired organization of strategic participation by the DA franchisees. Please refer to section 5.2.8.

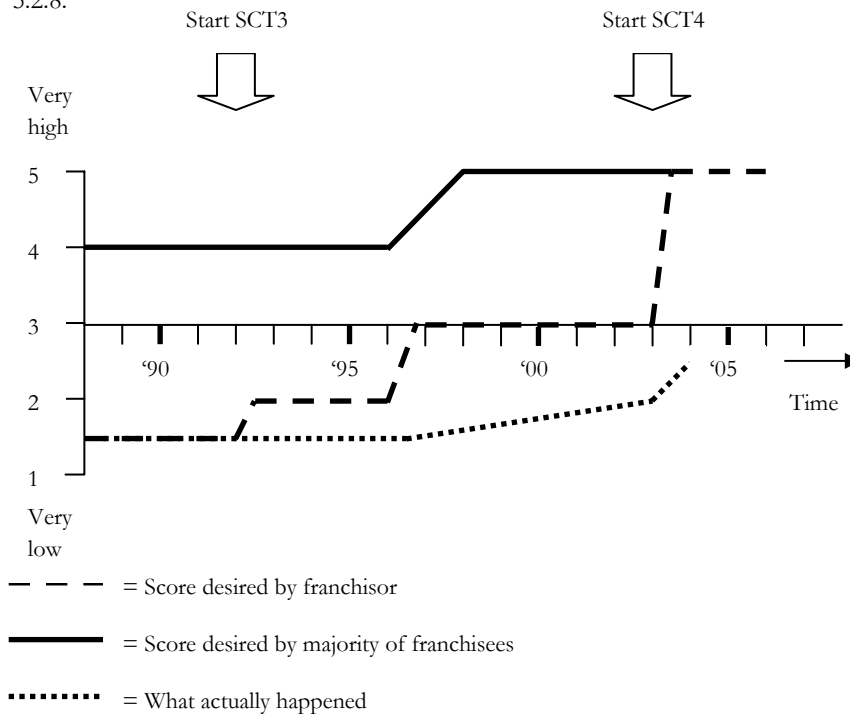


Fig. 6.6 Timeline for the organization of franchisees' strategic participation

6.2.9 Strategic compatibility regarding type of growth objectives during SCT3

What the franchisor wanted

For STIP, management1 aimed for both quantitative and qualitative growth. When management1 started, the STIP system consisted of about 67 stores. During SCT3, management1 mainly aimed for quantitative growth; it wanted the STIP system to grow to 200 stores in three years. This was the minimum acceptable number of stores in order to realize a certain score and for the STIP system to be profitable. As pointed out, management1 aimed at reaching its goals by attracting smaller DA franchisees and completely independent druggists by means of minimum requirements.

Besides quantitative growth, management aimed at improving individual stores' performance by means of renovations and the introduction of other requirements.

Moreover, management1 wanted to use these STIP stores as a 'testimonial' for the smaller DA franchisees who were still not convinced that they should switch to the STIP system.

What franchisees wanted

As pointed out, STIP franchisees were very wary about adopting certain requirements because of their stable turnover levels. They did not expect that much or any growth was possible in their stores due to their competitive circumstances. Moreover, because of their relatively low turnover levels they expected that it would take a long time to recoup their investments. In other words, because these franchisees did not expect that they could improve their stores' performance they were hesitant about making investments.

What actually happened

During SCT3, the 'net growth' of the STIP system in terms of number of units was small. Nevertheless, the composition of STIP franchisees had changed due to a high degree of entries and exits. So, although the STIP system had not really grown in terms of number of units, because the weakest had exited, growth had become slightly more qualitative in the 1990s. On the one hand, several STIP franchisees had exited because their stores could not survive, and, on the other hand, several independent druggists had entered the STIP system. As pointed out, management1's attempt to attract smaller DA franchisees to the STIP system had failed. Due to these developments, STIP had about 150 drugstores at its peak in the late 1990s.

6.2.10 Strategic compatibility regarding type of growth objectives during SCT4

What the franchisor wanted

Through the combination of STIP, DA and DA D'Attance, management2 aimed at a new DA system with about 730 stores. As pointed out in section 5.2.10., management2 expected that several smaller DA and STIP franchisees would exit, but that a large group would stay on, so the number of DA stores would become greater and a certain scale would remain. For the remaining group, management2 mainly aimed at qualitative growth by increasing productivity per square meter floor area. As part of this, management2 established certain minimum requirements for the different formats, for example, with respect to floor area or sales level. For DA-Basic this was at least 100 square meters, for DA-Core at least 150, and for DA-Beauté at least 200 square meters. Management2 wanted franchisees who did not meet the increased requirements to renovate or relocate their stores. However, the CEO expected that this process would take several years.

What franchisees wanted

For the STIP franchisees, management2's plans with respect to renovating or relocating stores had not caused problems up to that point because it was still early in the change process. Several STIP franchisees had already decided with the introduction of SCT4 that they would exit because they expected to be too small to meet requirements, the increased requirements and incompatibility with future growth objectives.

Moreover, one issue that was likely to cause problems with the integration of STIP into DA was in possible duplications. Due to integration, it was possible that a STIP store would be turned into a DA store and would be very close to an existing DA store. However, at the time of the interviews this had not (yet) become a problem because at the time the STIP stores had not yet adopted the DA name. Moreover, management2 expected few problems with this.

What actually happened

As pointed out in 5.2.10 it was too early to determine whether management2 had realized its qualitative growth objectives because it was still early in the change process.

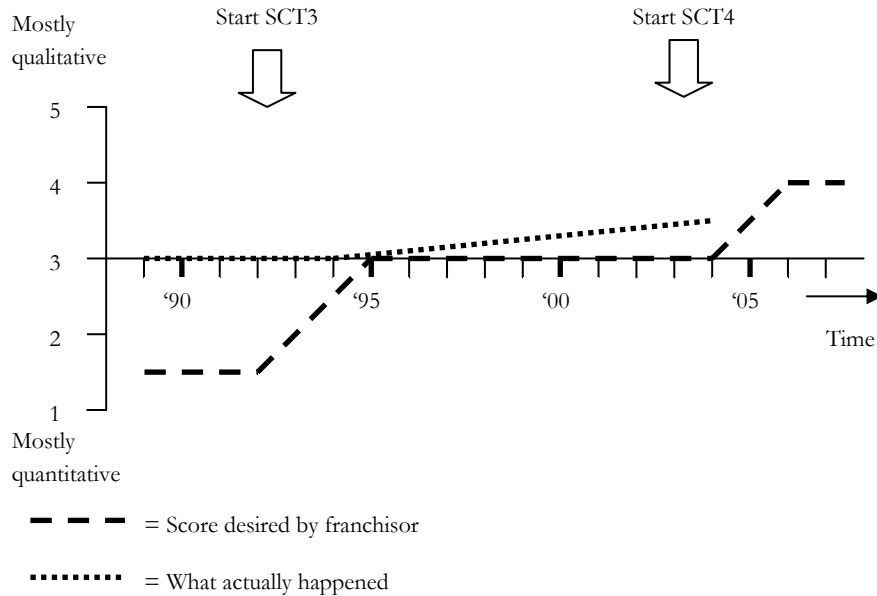


Fig. 6.7 Timeline for type of growth objectives

6.3 Operational compatibility

6.3.1 Operational compatibility during SCT3: 'Reanimation'

The franchisees' perspective

In general, the STIP franchisees perceived a medium degree of operational compatibility regarding capabilities (OC capa) with the franchisor. The most important factors for the STIP franchisees during SCT3 were the same as for the DA franchisees: general support, purchasing prices, logistics, and automation. For several STIP franchisees automation was not an issue because they did not have an automation system. They thought it was unnecessary and too expensive for their stores. However, the STIP franchisees who did have an automation system that was recommended by the franchisor were not satisfied with it. As for the factors of general support, logistics and purchasing prices, the STIP franchisees had more or less the same perceptions as DA franchisees: they perceived it as too expensive because they thought Dynadro wanted to earn extra money from them.

With respect to operational compatibility regarding profitability (OC profit), several STIP franchisees perceived the costs of participating in the STIP system as very high. For the majority of STIP franchisees this was a very important issue because they perceived limited and stable turnover levels, as also was the case for several smaller DA franchisees. For a large part, they perceived the same problems as the DA franchisees. These were high

costs due to promotional activities with automatically supplied goods, the costs for logistics, purchasing prices, or automation costs. Just like the DA franchisees, the STIP franchisees perceived that these costs had increased over time, especially due to the increased costs for promotional activities. Due to their limited and stable turnover levels the franchisees did not want to have costs that high.

As to operational compatibility regarding trust/fair dealing (OC trust/fd), several STIP franchisees perceived this to be low. This was the same as for the DA franchisees; the STIP franchisees had the idea that their payments to the franchisor were not in proportion to their benefits, and the costs of participating were not very transparent due to implicit charges by the franchisor.

However, one additional issue for the STIP franchisees with respect to fair dealing was the non-transparency of the franchisor's expenditures on the DA and the STIP systems. Several STIP franchisees had the idea that their payments were used by the franchisor to support the DA system instead of the STIP system. As pointed out in section 6.1.2, this was not only on a financial level, but also on a more 'psychological' level; several STIP franchisees felt as if they were considered less important than the DA franchisees because their stores were generally smaller. Section 6.1.2 already indicated an example of a STIP-franchisee who pointed out the STIP franchisees' feeling of inferiority.

The franchisor's perspective

As indicated in 5.3, from the franchisor's perspective a necessary condition was that the franchisee would be able to fulfill his financial requirements (OC capa). Some franchise relationships only had low profitability for the franchisor because the franchisee had a small store with only a limited number of purchases from the franchisor's wholesaling organization. However, the franchisor did not consider this a problem as long as the franchisee paid his financial requirements. Trust and fair dealing were not really issues for management¹ because it did not really try to impose requirements on the franchisees. This applied to all types of requirements: with respect to business format elements, or purchasing, or automation. Because these elements were not really imposed, the franchisees could do what they wanted and therefore trust that franchisees would stick to these elements was not an issue for the franchisor.

6.3.2 Operational compatibility during SCT4: 'STIP's integration and renegotiation'

The franchisees' perspective

With respect to OC capa, the following aspects were considered important by the STIP franchisees during SCT4: automation, purchasing prices, logistics, and general support. These were the same aspects as for the STIP franchisees during SCT3 and the DA franchisees during SCT1.

For the STIP franchisees OC profit was still very important. By signing the FSO they would become obligated to adopt several business format elements and services from the franchisor. But they thought these aspects were expensive and they were afraid that their cost levels would rise, and therefore OC profit would decrease. The issue of fair dealing was related to this; the franchisees perceived all these aspects as expensive because they felt they had to pay for the large head office of the franchisor and for them this was reason enough not to adopt certain requirements. In other words, through their perception of high costs and 'unfair dealing' they resisted adopting certain proposed changes and thereby

influencing the degree of hardness of the STIP system. If they would sign the FSO, these aspects would become obligatory and that is why these issues became important to the STIP franchisees.

One additional issue that was mentioned by several STIP franchisees was the high degree of ‘solidarity’ within the STIP system. Because all STIP franchisees were smaller druggists in comparable circumstances they felt connected to each other and there were some groups that met on an informal basis to discuss their issues. Some STIP franchisees were afraid that this would be lost when they switched to the DA system, which was more heterogeneous and where their specific interests would be less likely to be taken into account.

The franchisor’s perspective

For the aspects of operational compatibility for the franchisor during SCT4, please refer to section 5.3.2.

6.4 Attractiveness of alternatives

6.4.1 Alternatives during SCT3: ‘Reanimation’

The franchisees’ perspective

For several of the 67 franchisees who had already been STIP franchisees before the introduction of SCT3 (‘early STIP franchisees’), the STIP system itself had been an alternative to the DA system. These franchisees pointed out that they had switched from DA to STIP due to the slightly increased requirements (even before Dynaretail was started). Other early STIP franchisees had been completely independent druggists before they had entered STIP. Several of them had initially aimed to enter the DA system but they had been advised by the organization to enter STIP instead. Their main motivation for entering a drugstore system was participation in collective promotional activities.

During SCT3, the STIP franchisees considered very few alternatives as attractive. Some franchisees remembered that the UED system already existed at that time, but they did not consider that because they were satisfied with the STIP system. Additionally, the ETOS system was not considered as a viable alternative. Moreover, at that time ETOS aimed at attracting larger DA stores with relatively large luxury perfume lines. With the introduction of SCT3, there were very few (about 5) druggists who exited the STIP system immediately. These were mainly from the WPP system⁵⁰, and they did not want to become part of a drugstore system at all. Therefore, they decided to continue as a CID.

The STIP system itself was an alternative for DA franchisees who could not or did not want to meet the increased requirements of the DA system. Therefore, in the early years of STIP’s existence, the system mainly consisted of former DA franchisees. During STIP’s reanimation, these franchisees were actually happy with the increased attention paid to their system, but still several franchisees wondered why they could not operate under the DA name.

In sum, during SCT3, most STIP franchisees had not really considered alternatives because they were happy with management’s intention to reanimate the STIP system.

⁵⁰ As pointed out in 5.1.1, this was a very loose form of cooperation that was integrated into STIP during SCT3.

The franchisor's perspective

For the alternatives for the franchisor during SCT3, please refer to section 5.4.1

6.4.2 Alternatives during SCT4: 'STIP's integration and renegotiation'

The franchisees' perspective

The STIP franchisees considered the looser drugstore systems such as ABC, DIO, UED, De Drogist and De Vakdrogist as alternatives to switching to DA. They mostly took the following into consideration.

The most important consideration was the balance between the costs of participating and the benefits of operating under a well-known brand name. The STIP franchisees argued that although with the switch to DA they would be switching to a well-known brand name, this would involve certain costs. Several franchisees thought that the other drugstore systems were not well known and powerful enough and therefore were not considered. However, some franchisees did not consider a well-known brand name as very important for their store and therefore seriously considered these softer drugstore systems. Nevertheless, as far as the choice among these systems was concerned, some druggists did consider the 'power' of these systems in the market and therefore most of the druggists considered the UED system as the most attractive one. They saw the UED system as a relatively large system that had enough promotional activities at reasonable cost. The other systems were often seen as too small. The franchisees expected a lower turnover level with the looser drugstore systems, but also a lower cost level. Therefore, they expected their profits to be equal or higher than at the DA system. Additionally, several STIP franchisees saw other druggists entering the UED system and therefore they thought that the UED system would become more powerful. And several druggists copied the behavior of other druggists who entered the UED system. Moreover, several STIP franchisees already had some contact with Brocacef and considered them to be friendly people with a non-authoritarian style. Some STIP franchisees also referred to the REZO group as an alternative, but they wanted to wait and see how this group would perform and what their brochures would look like because this group had just started at the beginning of SCT4.

Very few STIP franchisees considered continuing as a CID as an alternative, but only because they expected to have to close the business down within a few years.

The franchisor's perspective

For the franchisor's considerations with respect to alternatives, please refer to section 5.4.2

6.5 Switching costs

6.5.1 Switching costs during SCT3: 'Reanimation'

The franchisees' perspective

As was the case for most DA franchisees during SCT1, switching costs for the STIP franchisees were low during SCT3. The STIP franchisees' considerations with respect to switching costs were the same as for the DA franchisees, and therefore please refer to section 5.5.1.

With respect to emotional or social bonds, the situation was slightly different. The STIP system had not existed long enough to have established such social bonds as at DA although several STIP-franchisees perceived a certain degree of solidarity with other STIP

franchisees. Some STIP franchisees who had been DA franchisees in the past still considered themselves DA franchisees; they perceived more social bonds with DA than with STIP.

The franchisor's perspective

For the franchisor's switching costs with respect to individual druggists, please refer to section 5.5.1. Additionally, since STIP stores represented only a small part of Dynadro's income, the franchisor's switching costs with respect to STIP franchisees were generally lower than for the DA franchisees.

6.5.2 Switching costs during SCT4: 'STIP's integration and renegotiation'

The franchisees' perspective

For the STIP franchisees the switching costs during SCT4 were the same as for the DA franchisees: they were still low. The STIP franchisees took the same considerations into account as the DA franchisees, and therefore please refer to section 5.5.2.

An additional element played a role for STIP franchisees. They had no choice but to switch to another system: either the DA system or another system. These systems all had certain entry barriers, but these were considered less important by the franchisees because STIP was going to be dissolved and they would be forced to switch to another system, so they had to make certain switching costs anyway.

The franchisor's perspective

During SCT4, the switching costs were still generally low, due to a lack of specific investments and guarantees by the franchisees.

6.6 Responses of the partners

6.6.1 Responses during SCT3: 'Reanimation'

Responses of the franchisees

According to a manager of management¹, the responses of the STIP franchisees to SCT3 were as follows (see Fig. 6.8): covo=25%, loy=40%, negl=15%, agvo=15% and exit=5%. My own estimates for the responses are: covo= 25%, loy=25%, amloy=20%, negl=10%, agvo=15% and exit=5%.

The estimates of active responses are similar, but there is a difference between the passive responses. As pointed out in section 5.6.1, an explanation for this is that it might be more difficult for management to estimate passive responses than for a researcher. Moreover, the presence of the ambiguous loyalty response also explains the difference in the estimates of passive responses.

I stress that these responses are the responses directly after the introduction of SCT3 and that several franchisees switched to subsequent responses (see section 6.7).

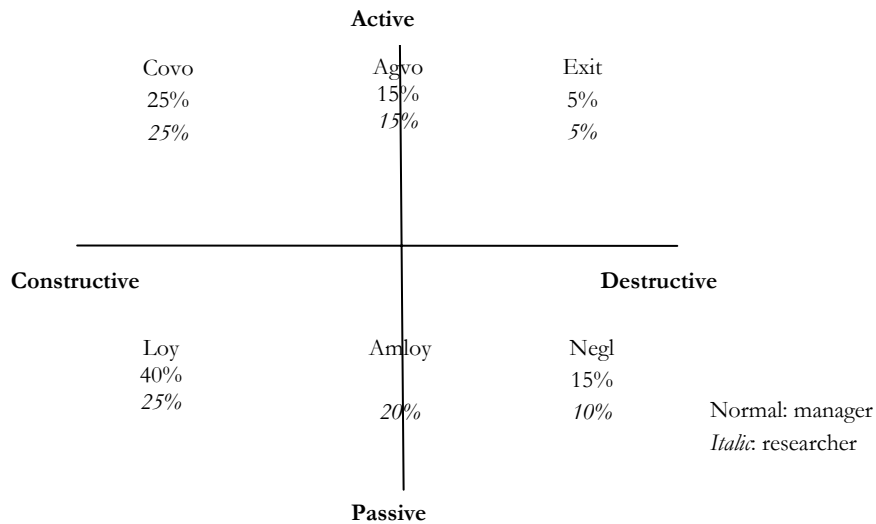


Fig. 6.8 Estimations of responses of the STIP franchisees for SCT3

Responses of the franchisor

During SCT3, management1 adopted covo toward the franchisees who became members of the STIP Boards of Participants. It adopted covo toward them to try to create support among the large group of STIP franchisees to adopt the proposed changes. Management mostly adopted a passive response toward the remaining group of franchisees.

6.6.2 Responses during SCT4: ‘STIP’s integration and renegotiation’

Responses of the franchisees

According to the CEO, the majority of STIP franchisees agreed with the changes of SCT4, although they had worries about the cost levels and their future profitability. Some STIP franchisees contacted management2 to make clear that they wanted to exit, but the CEO thought that for some this was only a ‘cry for attention’ (agvo). The CEO had an overview of the reactions of STIP franchisees, but did not want to reveal it. My own estimates of the STIP franchisees’ responses to the introduction of SCT4 are as follows: covo=15%, loy=20%, amloy=15%, negl=10%, agvo=20% and exit=10%. These estimates are based on the interviews.

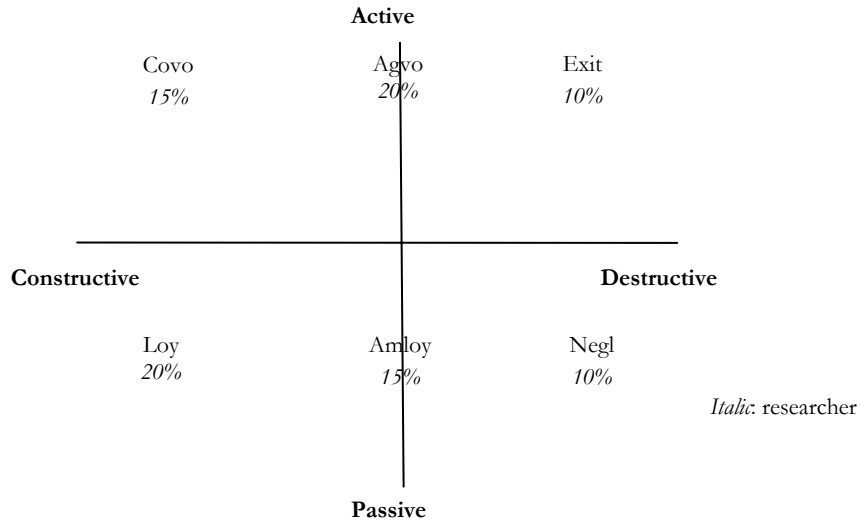


Fig. 6.9 Estimations of responses of the STIP franchisees for SCT4

Responses of the franchisor

The responses of management2 differed among franchisees. In the development and refinement of the FSO, management2 held discussions with several committees of franchisees, including STIP franchisees. Management had negotiated the contract terms with these committees, which is a covo response.

During SCT2, management2 said it would not accept compromises anymore; and the franchisees who did not want to sign the FSO had to exit.

Section 6.7 will discuss the responses of the franchisor and individual franchisees and provide detailed insight into franchise partners’ motivations for the responses adopted.

6.7 Analysis of relationships between variables

Sections 6.2 to 6.6 have described the developments during SCT3 and SCT4 and the franchise partners’ perceptions of the independent variables (leading to conclusions type 1). The following section will take a closer look at the individual franchise relationships by analyzing relations between the independent variables and the responses (leading to conclusions type 2). For both SCT3 and SCT4, the development in franchisees’ responses will be presented in a figure (Figs. 6.10 and 6.11 respectively). In these figures each number represents an individual franchisee. Each response type (‘X-response’ for example) will be discussed according to the following structure:

- Preceding responses to the X-response (broken lines in Figs. 6.10 and 6.11).
- The X-response as initial response (bold numbers in Figs. 6.10 and 6.11). This will be the focal point of analysis where the determining variables (see section 4.3.5) and the franchisees’ perceptions of these variables are discussed to explain why they adopted the X-response.
- Subsequent responses to the X-response (unbroken lines in Figs. 6.10 and 6.11).

Additionally, the franchisor's responses and determining variables will be discussed for each franchisee response.

A limitation of Figs. 6.10 and 6.11 is that they do not indicate the time intervals between the switches from one response to another, even though they varied from a few weeks or months to several years. For a better understanding of the development of responses, these time lapses will be indicated in the text. For the meaning of the abbreviations, please refer to Appendix 11.

This section discusses the franchise relationships on a very detailed level. To readers who are interested on a more general level, I recommend to skip this section and to continue with section 6.8 in which the general conclusions for the STIP system are discussed.

6.7.1 Analysis for SCT3: 'Reanimation'

Table 6.1 presents a summary of the data for SCT3. For each response type, it presents the number of respondents (franchisees), the modus of these franchisees' perceptions of the independent variables and the modus of franchisor's responses. The sample consists of four covo franchisees, three loy franchisees and one agvo franchisee. Table 6.1 shows that none of the respondents adopted negl, amloy or exit directly after the introduction of SCT3, but because franchisees adopted these in subsequent responses it was possible to point at determining variables for these responses.

		Strategic compatibility (SC)					Operational compatibility (OC)				
Res- ponse FRE	SC Pos	SC Hard	SC Innov	SC Org	SC Growth	OC Capa.	OC Profit	OC Trust/ fd	Attalt.	Swico	Res- ponse FRO
Covo N=4	Very high	High (+)	Med/ very high (+)	High (+)	NP ⁵¹	Med	Med/ high	High	Low	Very low	Covo
Loy N=3	High (-)	High (-)	Med (+/-)	Low (+)	NP	Med	Med	Med	Low	Very low	Loy
Amloy N=0	-	-	-	-	-	-	-	-	-	-	-
Negl N=0	-	-	-	-	-	-	-	-	-	-	-
Agvo N=1	Very high	Med (+)	Med (+)	Low (+)	NP	Med	Low	Low	Low	Med	Negl
Exit N=0	-	-	-	-	-	-	-	-	-	-	-

Table 6.1 Summary of data for SCT⁵²

⁵¹ NP means that there were no problems with respect to growth objectives; a P means that there were problems.

⁵² As section 4.3.5 pointed out, the + and - indicate whether the franchisees aimed for a higher (+) actual score on the franchise system characteristics or a lower score (-). For example, med (+) on SC hard means that the franchisees perceived a medium degree of strategic compatibility on degree of hardness and actually wanted the degree of hardness to be higher.

Fig. 6.10 presents the developments of franchisees' responses to SCT3.

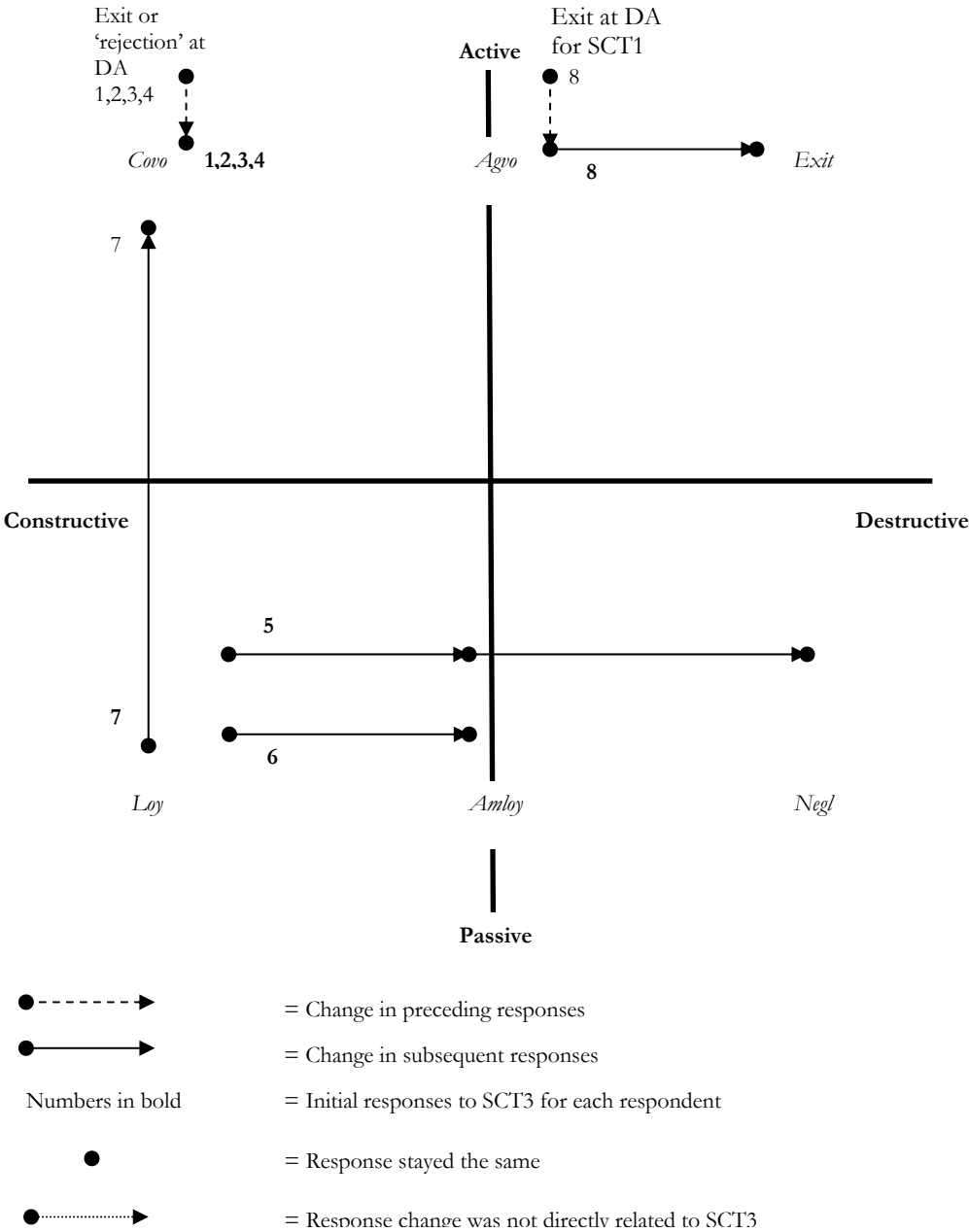


Fig. 6.10: Development of franchisees' responses for SCT3

Responses preceding covo

Fig. 6.10 shows that franchisees 1, 2, 3 and 4 adopted covo as their initial response. Some of them had come from the DA system where they had adopted exit; due to the increasing requirements⁵³ and higher cost levels they had felt forced to exit DA ('exit at DA' in Fig. 6.10). Other franchisees had aimed to become a member of the DA system, but were – due to their size – rejected for DA and were advised to enter STIP ('rejection at DA' in Fig. 6.10).

It is interesting that although former DA franchisees exited the DA system, they did not exit the relationship with the franchisor⁵⁴. These franchisees had been satisfied with their franchise relationship as such, while other franchisees did not want to have anything to do with the franchisor anymore. In other words, a difference should be made between a franchisee's exit from the franchise system and an exit from the relationship with the franchisor.

At the time of STIP's reanimation, several franchisees asked management1 why STIP could not become a module of DA. However, management1 wanted to keep STIP for smaller franchisees and promised that it would reanimate it, and management adopted covo by asking several franchisees to become members of the STIP Board of Participants. In reaction to that, several franchisees joined the newly started Board of Participants. By means of these franchisees, management1 tried to create support for STIP's reanimation among all STIP franchisees.

Covo as initial response

It is interesting that the franchisees who had adopted exit with DA adopted covo with STIP because they wanted to be closely involved in management1's plans ('voluntary covo' see 5.8.1). These franchisees' adoption of such 'voluntary covo' can be explained by their determining variables and their perceptions of these variables. Their determining variables were, in order of importance:

- OC profit/cost. These franchisees considered the costs of participation as very important because they had only small stores with relatively low and stable turnover levels where a low cost level was required to be profitable. Therefore, this is indicated with OC profit/cost as variation of OC profit. As pointed out, the relatively high cost level at DA had been a reason for them to switch to STIP.
- SC hard. The degree of hardness was determinant because it influenced the cost level in the eyes of these franchisees; with more requirements they expected a higher cost level. For these franchisees there was tension between the degree of hardness and the cost level. They wanted the degree of hardness to increase slightly to create brand awareness for STIP, but not too much because the costs had to be in balance with their turnover level. This is why they – and several other STIP franchisees – wanted STIP to become a separate module of DA so they could benefit from DA's well-known name at relatively low cost.
- OC pos. This was a determining variable because it was related to the requirements. By means of the requirements concerning brochures and the automatically supplied goods, management1 aimed to modify STIP's positioning. According to the franchisees, these goods had very low margins and there were a lot of 'leftovers'.

⁵³ When the term 'requirements' is used for SCT3 this refers to requirements with respect to brochures and the automatically supplied goods related to them because these were the only 'actual' requirements for franchisees at the time.

⁵⁴ As 6.1.1 pointed out, STIP and DA were administered by the same franchisor.

Therefore, this resulted in lower profits. Because the goods were supplied automatically this was an important issue for these franchisees. However, because the goods were supplied in small quantities, they still considered SC pos as very high.

- SC innov. This was only determinant on the level of new products because these were sometimes supplied automatically. On the level of other adaptations and the business format as a whole, compatibility with the franchisor was not so important because these adaptations were not obligated by the management. The covo franchisees wanted the rate of innovation at the product level to be slightly higher because they believed they could attract more customers and improve their profitability that way.
- OC trust/fd was important with respect to the requirements, but this did not result in problems because the degree of OC trust/fd in the eyes of the covo franchisees was high as a result of their involvement in the Board of Participants.
- SC org was considered important because the franchisees wanted to have an influence on the requirements. The covo franchisees perceived this influence to be high so there was no problem with it.

SC growth was not determinant because the franchisees perceived a large degree of freedom in this respect; because management did not force them to renovate or relocate, any possible incompatibility concerning growth objectives did not matter. The same applied to OC capa.

The attractiveness of alternatives and switching costs were not determining variables for the voluntary-covo franchisees because they perceived medium to high scores for their determining variables at that time and for the situation in the future. Because they were satisfied with the relationship these franchisees did not consider the attractiveness of alternatives and switching costs.

The franchisor's response toward these franchisees had always been covo because the franchisor 'used' these franchisees to create support for SCT3 among the other STIP franchisees.

Responses subsequent to covo

It is interesting that the franchisees who initially adopted covo did not change their responses over time (see dot in Fig. 6.10). They were close to management¹ due to their membership of the Board of Participants, and therefore they had more contact with the management and automatically discussed certain issues with the management. They also agreed with the changes during SCT3 which did not result in a need to change to another response.

Responses preceding loy

As Fig. 6.10 points out, franchisees 5, 6 and 7 adopted loy as initial response. Their preceding responses had also been loy responses, which can be explained by the fact that they had always perceived acceptable scores on their determining variables; in other words, they had not (yet) reached their 'thresholds'.

Loy as initial response

After the introduction of SCT3, franchisees 5, 6 and 7 still adopted loy, which can be explained by their determining variables and their perceptions of these variables at that time and their expectations for the near future. Their determining variables were in order of importance:

- OC profit/cost. Again, OC profit/cost was considered most determinant due to the relatively small floor area and stable turnover level of these franchisees.
- SC hard. This was a determining variable because the franchisees perceived a relationship between the degree of hardness and the cost level. For these franchisees there also was a tension between the degree of hardness and cost level. However, for them this tension was smaller than for the covo franchisees. The loy franchisees attached less importance to a well-known brand name and therefore had a lower desired degree of hardness, and therefore lower thresholds on this. For these franchisees the requirements during SCT3 had been acceptable because the frequency of brochures and the amounts of goods attached to them were mostly low; and therefore the costs were considered reasonable, resulting in medium OC profit/cost. Because they had not reached their thresholds, these franchisees did not feel the need to adopt an active response.
- SC pos. This was determinant because it was related to the requirements. The loy franchisees perceived a high score on this, which is why they did not feel the need to adopt an active response.
- SC innov was only determinant on the level of new products. Some of these franchisees wanted a slightly higher rate of innovation while others wanted it slightly lower. However, their perception of SC innov was still medium.
- OC trust/fd. This was a determining variable with respect to the requirements. Because these requirements were still relatively few and the loy franchisees still perceived a medium degree of trust, these franchisees adopted a passive response.
- SC org. This was considered important because this was a way for the franchisees to influence their requirements. However, the loy franchisees' perceptions of this were low. Apparently, this was less important than the other determining variables. An explanation for this is that these franchisees mostly agreed with the requirements and therefore they felt that strategic participation was less necessary at that time.

The other variables – SC growth and OC capa – were not determinant for the same reasons as for the covo franchisees, namely the large degree of freedom the franchisees still had in this respect. Additionally, the attractiveness of alternatives and switching costs were not determinant because the loy franchisees were generally satisfied with their situation at the time.

Responses subsequent to loy

For two of the three franchisees (5 and 6 in Fig. 6.10) loy turned into amloy (see section 5.7.1) in the years after SCT3's introduction. This switch was due to increasing cost levels as a result of the increasing requirements, which caused a lower perception of OC profit/cost and SC hard. The franchisees' thresholds on these variables were almost reached. Franchisee 5 later on switched to negl because he thought the requirements had increased too much. Because management1 did not actually enforce⁵⁵ requirements on the franchisees, the franchisee did not reach his threshold and stayed in this negl response for several years. For this franchisee OC trust/fd and SC org did not matter because he just did not adopt the requirements and therefore still perceived much freedom.

Franchisee 7 subsequently switched to a voluntary-covo response after joining the Board of Participants because he perceived that a well-known brand name had become

⁵⁵ Even the requirements with respect to automatically supplied goods were not really enforced by management1 because sometimes franchisees just sent the goods back.

more important (due to changes in competitive circumstances). In other words, his tension between degree of hardness versus costs had increased, which is why he adopted covo.

Toward the loy franchisees, the franchisor in turn adopted loy because these franchisees fulfilled their financial requirements (OC capa) and requirements with respect to the promotional activities (SC hard).

Responses preceding agvo

Franchisee 8 had adopted exit at DA and had felt forced to enter STIP due to the increasing cost level at DA. Due to the increased requirements this franchisee had become afraid that the costs would become too high to bear for his small store, and he had therefore switched to STIP when STIP started.

However, franchisee 8 saw STIP as a 'lesser' alternative to DA because STIP did not have any brand awareness while DA did, and this was the case for several other STIP franchisees. He had always complained about the fact that STIP was a separate system instead of a module of DA. He felt that he was 'thrown out' of the DA system, even though he had been a DA franchisee for decades. In other words, this franchisee had made a 'forced exit'. With his entry into STIP, the franchise became a member of the Board of Participants, an important motive for which was to (aggressively) convince management to integrate STIP into DA.

Agvo as initial response

For this franchisee's agvo the determining variables were, in order of importance:

- OC profit/cost. This was considered important for the same reason as the other STIP franchisees; with his relatively small floor area and stable turnover level he felt he could not afford a high cost level. OC profit/cost was low in the eyes of this franchisee, caused by the increased requirements and investments for STIP while STIP was an unknown name.
- SC hard. The agvo franchisee considered a well-known brand name as important because his store was situated in a tourist area, and therefore he desired a higher degree of uniformity. For this franchisee the tension between desired degree of hardness and cost level was therefore larger than for the loy franchisees. This explains why this franchisee aggressively tried to convince management to integrate STIP into DA so that he could benefit from the well-known DA name at relatively low costs. .
- SC pos. This was a determining variable because the franchisee thought the lower positioning by means of the promotional brochures and automatically supplied goods resulted in lower profits. In other words, in the eyes of this franchisee there was a relationship between degree of hardness and positioning on the one hand, and profitability on the other hand. Because these goods were obligatory this was an important variable for this franchisee.
- SC innov. This was only determinant on the level of new products because these were sometimes supplied automatically (and therefore obligatory).
- OC trust/fd. This was a determining variable because the franchisee perceived a certain degree of dependency on the franchisor. The franchisee perceived a low degree of fair dealing because he thought that the franchisor benefited more from him than the other way around, and this contributed to the high cost level in the eyes of this franchisee.

- SC org. The franchisee thought participation was important because he wanted a higher degree of hardness on the one hand, but, on the other hand, he wanted to influence the types of requirements and especially the costs associated with them.

For this franchisee, another type of fair dealing played a role, and, as pointed out in section 6.3.1, this should be distinguished in addition to fair dealing between the franchisor and the franchisee in the relationship, namely fair dealing between the STIP and the DA system. The franchisee felt that his payments were often used for the DA system and not for the STIP system. Actually, this type of fair dealing was not only about money, it also had to do with the feeling of getting 'attention'. This franchisee perceived that he and STIP in general received less attention than DA because STIP stores were considered as not viable. This agvo franchisee was not the only franchisee who had this idea of unfair dealing; this was felt by several STIP franchisees.

SC growth and OC capa were not determinant for the agvo franchisee. This was mainly because these aspects were not enforced by the franchisor; the franchisor had not actually required the franchisees to make other modifications, to renovate or relocate their stores, or to adopt certain services from the franchisor, such as automation or purchasing.

The franchisee perceived a low attractiveness for alternatives, and therefore he was hesitant to exit STIP. But he argued that if there had been alternatives he would have switched to them. The switching costs were perceived as medium, but they did not play a role due to the low attractiveness of alternatives; because the franchisee perceived a low attractiveness for alternatives, the switching costs did not matter.

The franchisor's response in the eyes of the franchisee was a passive one because management1 did not listen and react to his arguments, according to this franchisee, which highly annoyed him. This annoyance also explains why the franchisee adopted agvo instead of covo. The franchisor did not do what the franchisee wanted; it did not integrate STIP into DA because it wanted DA to be a homogeneous system in terms of types of stores, and management1 did not want to delay the development of DA.

Responses subsequent to agvo

This franchisee adopted agvo for several years, and eventually he adopted exit right before the introduction of SCT4. This exit was the result of two factors. First, he had reached his thresholds on his determining variables and had decided to adopt a 'lesser' alternative in the form of another drugstore system (UED). Second, this alternative had become less unattractive because it had attracted several other STIP and DA franchisees over time.

The exit response was adopted very shortly before the introduction of SCT4 and management just let this franchisee go.

Exit as initial response

There were no respondents who initially adopted exit, and therefore it was not possible to analyze this and its preceding responses. As pointed out, because this response was adopted as a subsequent response by franchisee 8 it was possible to indicate its determining variables.

Summary of determining variables

Table 6.2 presents the determining variables for each response type. Section 6.8 will discuss more general conclusions based on this table. As pointed out, no franchisees who adopted negl or exit were interviewed, but because these were adopted as subsequent responses it was possible to indicate determining variables.

Determining variables for franchisees' responses in order of importance					
Covo	Loy	Amloy	Negl	Agvo	Exit
OC profit/cost	OC profit/cost	OC profit/cost	OC profit/cost	OC profit/cost	OC profit/cost
SC hard	SC hard	SC hard	SC hard	SC hard	SC hard
SC pos	SC pos	SC pos	SC pos	SC pos	SC pos
SC innov	SC innov	SC innov	SC innov	SC innov	SC innov
OC trust/fd	OC trust/fd	OC trust/fd	OC trust/fd	OC trust/fd	OC trust/fd
SC org	SC org	SC org	SC org	SC org	SC org
Determining variables for franchisor's responses (to franchisees' responses) in order of importance					
Franchisor's response to covo= covo 'Creating support'	Franchisor's response to loy=loy OC capa SC hard OC profit	Franchisor's response to amloy= loy OC capa SC hard OC profit	Franchisor's response to negl=negl OC capa SC hard OC profit	Franchisor's response to Agvo= negl OC capa SC hard OC profit	Franchisor's response to exit= negl OC capa SC hard OC profit

Table 6.2 Summary of determining variables per response type in order of importance for SCT3

6.7.2 Analysis for SCT4: 'STIP's integration and renegotiation'

Table 6.3 presents a summary of the data for SCT4. For each response type, it presents the number of respondents (franchisees), the modus of these franchisees' perceptions of the independent variables and the modus of franchisor's responses. The sample consists of four covo franchisees, four loy franchisees, two negl franchisees, two agvo franchisees and two exit franchisees.

Res- ponse FRE	Strategic compatibility (SC)						Operational compatibility (OC)						Res- ponse FRO
	SC Pos	SC Hard	SC Innov	SC Org	SC Growth	OC Capa.	OC Profit	OC Trust/ fd	Attalt.	Swico			
Covo N=4	High (-)	High (-)	Med/ high (+)	High (+)	NP	Med	High high	High	Low/ med	Very low	Covo		
Loy N=3	High (-)	High/ Very high (-)	Med (+)	Med (+)	NP	Med	High	High	Med	Very low	Loy		
Amloy N=1	High (-)	High (-)	Med (+)	Med (+)	NP	Med	Med	Med	Very low	Low	Loy		
Negl N=2	Low/ med (+)	Low/ med (-)	Med (+/-)	Med (+)	NP	Med	Low	Low/ med	Very low/ med	Very low/ w	Loy/ negl covo		
Agvo N=2	Med (+)	Low (-)	Low (-)	Low (+)	NP	Med	Low	Low	Med	Very low	Negl		
Exit ⁵⁶ N=2	Med/ very high (+)	Low/ med (-)	Very high	Low/ high (+)	NP	Low/ med	Low	Low/ high	Med/ high	Very low	Ex/ covo		

Table 6.3 Summary of data for SCT4

⁵⁶ The two exit franchisees had very different perceptions of the situation; that is why both scores are presented in the Table. The scores of franchisee 13 are first, and the scores of franchisee 14 are second.

Figure 6.11 presents the development of franchisees' responses to SCT4.

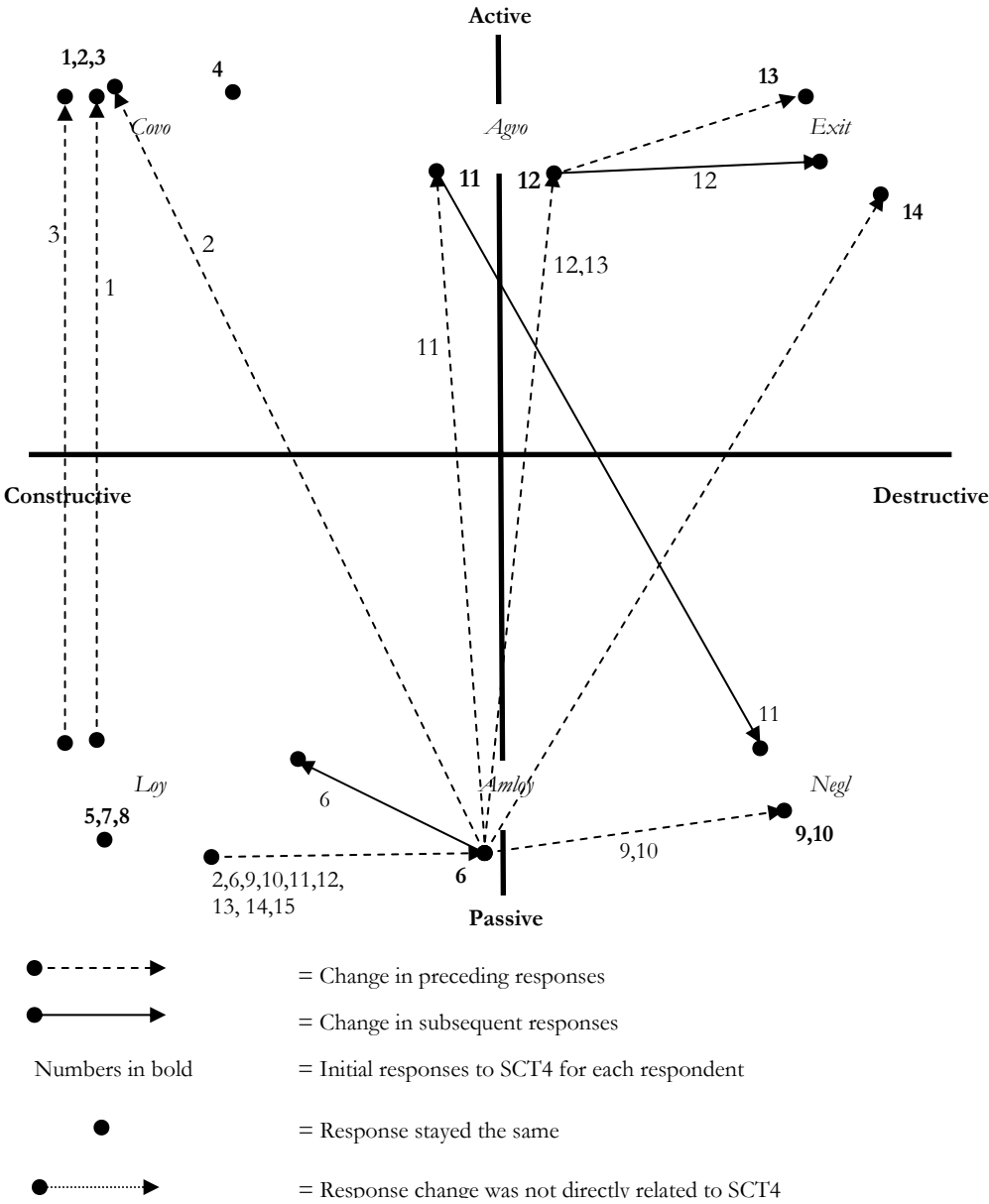


Fig. 6.11: Development of franchisees' responses to SCT4

Responses preceding covo

Fig. 6.11 shows that franchisees 1, 2, 3 and 4 adopted covo as initial response. These franchisees were all involved in the further development and refinement of the FSO after

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SCT4 was introduced. They felt that the introduction of a standardized contract was inevitable in order for druggists to survive and they had therefore become involved in the development of the FSO. Franchisees 1 and 3 had adopted loy as preceding response, while franchisee 2 had gone from loy to amloy under management¹, to covo under management². Under management², franchisee 2 expected the relationship to improve because he mainly expected the cost level to become lower. Franchisee 4 had always adopted covo; this was a logical response for him because of his personal contacts with the management.

Covo as initial response

For these franchisees the determining variables were, in order of importance:

- OC profit/cost. As was the case for most STIP franchisees, this was considered the most important determining variable due to the small floor area and stable turnover level of the STIP stores.
- SC hard. This was considered important because these franchisees perceived that a well-known brand name had become increasingly important over time. As pointed out for SCT3, there was a certain tension between the desired degree of hardness and cost level. Therefore, franchisees perceived certain thresholds on their desired degree of hardness. For the covo franchisees, this threshold was relatively higher compared to the other STIP franchisees because they considered a well-known brand name as important.
- SC pos was important because this was related to the requirements. By means of the requirements a certain way of positioning in the market would be established, and therefore it was important for franchisees to have a certain degree of strategic compatibility regarding positioning.
- SC innov had become more determinant for the same reasons as SC pos; management² aimed to oblige certain elements related to rate of innovation. By means of certain requirements, management² wanted to establish a certain rate of innovation for the new DA system. Most STIP franchisees considered a high rate of innovation on product groups, other business format elements and the business format as a whole as unnecessary in their locations.
- OC trust/fd had become more important because these franchisees felt more dependent on the franchisor due to the increased requirements.
- SC org. Because the requirements would increase in the future, these franchisees considered it more important that strategic participation was well organized.
- OC capa had become a determining variable for these franchisees because the franchisor wanted to impose certain elements (i.e. automation and purchasing) by means of the FSO, and therefore it became more important that the franchisor's capabilities in regard to these aspects were good. The covo franchisees perceived a medium score on OC capa.

Regarding the degree of hardness, there were some requirements that these franchisees did not agree with, but these were specific clauses in the FSO and they expected that they could work these out with management². SC growth was not determinant because the consequences were not yet noticeable: management² had not yet required franchisees to renovate or relocate their stores in the near future.

The attractiveness of alternatives and switching costs were not determinant for these franchisees because they perceived medium to high scores on the determining variables and

therefore were satisfied with the relationship at that time. Moreover, they expected that the scores on their determining variables would be even higher in the future.

Toward the covo franchisees the franchisor in turn adopted covo because these franchisees were involved in the group of franchisees with whom management² had thoroughly discussed the new plans.

Responses subsequent to covo

The covo franchisees did not adopt any subsequent responses at the time, and therefore it was not possible to analyze them.

Responses preceding loy

Franchisees 5, 7 and 8 (Fig. 6.11) had always adopted loy as preceding response. Franchisees 5, 7 and 8 stayed loyal and adopted this as an initial response.

Loy as initial response

The loy franchisees had the same determining variables as the covo franchisees and for the same reasons; therefore, these reasons will not be discussed here anymore. For the loy franchisees the determining variables were, in order of importance.

- OC profit/cost.
- SC hard.
- SC pos.
- SC innov.
- OC trust/fd.
- SC org.
- OC capa.

The reason why these franchisees adopted loy was because they perceived medium to high scores on these determining variables and expected that these scores would still be high in the future. In other words, they had not reached their thresholds and they expected not to reach them in the future. Therefore, they did not feel the need to adopt an active response. This was also the reason why the attractiveness of alternatives and switching costs were not determinant.

Responses subsequent to loy

Franchisees 5, 7 and 8 had not adopted any subsequent responses at the time; therefore it was not possible to discuss them.

Responses preceding amloy

Franchisee 6 used to adopt loy; however, over time he switched to amloy, which was his initial response to SCT4. The reason why he switched to amloy was because he expected decreasing OC profit/cost. This franchisee expected to reach his threshold on his determining variables (see loy), of which OC profit/cost was the most important item.

Amloy as initial response

Franchisee 6 adopted amloy as initial response to SCT4 because he was not sure how his OC profit/costs would develop after signing the FSO. For a certain time period, the exact costs for participation in the new DA system were not yet known. He decided to wait because he felt that he did not have an attractive alternative. He expected that OC profit/cost would improve under management². In other words, he expected that his

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scores on the determining variables would become better in the near future, and after management2 had presented its plans he returned to loy. One important relationship for this franchisee was that between costs and fair dealing: the franchisee believed that under management2 the degree of fair dealing would improve, thereby improving the cost level.

Responses subsequent to amloy

Franchisee 6 switched back to loy once management2 had presented its detailed plans.

Responses preceding negl

Franchisees 9 and 10 adopted negl as initial response, and they both had first adopted loy and amloy as preceding responses. The main reason for their switch from loy to amloy and from amloy to negl was the increased cost level due to increased requirements.

Negl as initial response

For both franchisees 9 and 10 the determining variables were, in order of importance:

- OC profit/cost. This was the most important determining variable because of their small floor area and stable turnover level.
- SC hard. This was considered important because a high degree of hardness resulted in higher costs in the eyes of these franchisees. They did not want the degree of hardness to increase because they felt that in their locations a well-known brand name was not that important. In other words, they had a low threshold with respect to degree of hardness.
- SC pos. This variable was considered important because the requirements were related to this. With SCT4, management aimed to impose more requirements in addition to the requirements on brochures and automatically supplied goods.
- SC innov. This was also determinant because many requirements in the future would be related to this. However, franchisees 9 and 10 thought differently about this. Franchisee 9 thought DA needed a higher rate of innovation, while franchisee 10 thought it did not, due to the risks involved.
- OC trust/fd had become more important due to the increased requirements, but the score on this variable was low in the view of these franchisees.
- SC org had also become more important due to increased requirements.
- OC capa. This had become more determinant because the franchisor wanted to obligate certain elements related to this. The negl franchisees perceived a medium OC capa.

Franchisee 10 was an interesting case because he had signed the FSO, which might have initially seemed to be loy to the franchisor. However, although this franchisee had signed the FSO, he expected that he could wriggle out of several requirements. Franchisee 9 did not sign the FSO and just waited to see how the franchisor would react.

Toward franchisee 10, the franchisor adopted loy because the franchisee had signed the FSO. Toward franchisee 9 the response was initially passive because the franchisor had not contacted the franchisee at that time.

Responses subsequent to negl

The negl franchisees did not adopt any subsequent responses at that time, and therefore it was not possible to analyze them.

Responses preceding agvo

Fig. 6.11 shows that franchisees 11 and 12 initially adopted agvo. Both had gone from loy to amloy as preceding responses to agvo as initial response. Both franchisees had switched from DA to STIP in the 1990s because of increasing requirements at DA. However, over time their satisfaction with the STIP system had decreased, resulting in amloy and later on agvo.

Agvo as initial response

The responses of franchisees 11 and 12 can actually be termed as ‘collective agvo’. After the introduction of SCT4, both franchisees 11 and 12 wrote a letter together with other franchisees to file their complaints with the franchisor. By writing a letter with several franchisees from their area these franchisees hoped that the franchisor would listen to them⁵⁷. This can be explained by the fact that these franchisees all owned relatively small drugstores, and by joining forces they hoped to convince management² to change its plans.

For these agvo franchisees the determining variables were, in order of importance:

- OC profit/cost. This was considered important due to the small floor area and turnover level, and these franchisees expected that OC profit/cost would become lower in the near future. An additional problem for them was that the exact cost level was not known at that time.
- SC hard. These franchisees did not agree with the increasing degree of hardness for two reasons. First, they expected that their cost level would rise too much due to the increased requirements. Second, for these franchisees it was also an issue to be an independent druggist, and with all the requirements they would no longer feel like independent druggists.
- SC pos and SC innov. As a result of SCT2 a large part of positioning and rate of innovation would become obligatory, while these franchisees expected strategic compatibility on these aspects to become lower in the future.
- OC trust/fd. As pointed out, management² kept the costs for participation a secret and this resulted in a low degree of trust on the part of these franchisees.
- SC org. This was considered important but these franchisees’ perceptions of this were low.
- OC capa played a role because the franchisees did not agree with important elements such as purchasing prices and automation. Because these would become obligatory after signing the FSO, these were considered important issues by the franchisees.

These franchisees perceived a medium attractiveness for alternatives, and this might explain why they first adopted (collective) agvo. With this response they first tried to convince the franchisor not to implement the FSO.

Responses subsequent to agvo

At the time of the interviews, the franchisor had not (yet) responded to these franchisees. Franchisee 11 adopted negl by deciding just to wait until the franchisor ended the relationship. Franchisee 12 decided not to wait anymore and decided to exit without yet

⁵⁷ Franchisees 11 and 12 were in different regional groups, so ‘collective agvo’ was adopted by several groups of franchisees.

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knowing what alternative to adopt. The franchisee had become so dissatisfied that he was willing to accept an alternative with medium attractiveness.

Responses preceding exit

Franchisees 13 and 14 adopted exit almost directly after the introduction of SCT4. Their preceding responses had gone from loy to amloy, to exit as an initial reaction to SCT4. Additionally, franchisee 13 had adopted agvo due to a conflict with the franchisor, and this conflict triggered him to leave STIP.

Exit as initial response

Franchisees 13 and 14 each had different determining variables and different perceptions of the relationship. Therefore, they are discussed separately. Franchisee 13 had become so dissatisfied that he switched to an alternative. Franchisee 14 felt that exit was inevitable because he would not be able to carry the costs in the future.

For franchisee 13 the determining variables were, in order of importance:

- OC profit/cost. These were important for the same reason as for the other STIP franchisees.
- SC hard. Due to his competitive circumstances the franchisee thought a known brand name was important and therefore agreed with the proposed requirements (but within acceptable cost levels). He also agreed with the proposed changes in positioning and rate of innovation.
- SC pos. This was considered important due to future requirements with respect to this franchise system characteristic.
- SC innov. This was considered important due to future requirements with respect to this franchise system characteristic.
- OC trust/fd. This was considered important because of the proposed requirements. But this is also where franchisee 13 perceived most problems; he perceived a low degree of fair dealing, which would result in a high cost level. Therefore, the franchisee did not want to commit himself by means of signing the FSO because after signing the FSO he would be obliged to pay all the costs. Actually, the franchisee agreed with all the proposed changes but made a 'voluntary exit'. He switched to another system, but he did not exclude joining DA again as a future possibility⁵⁸. He just wanted to see what would happen at DA before he decided to commit and to make specific investments.
- SC org. The franchisee considered this as important because he thought that when requirements were introduced, the franchisees needed to have a say in these requirements.
- OC capa. This was a determining variable because the franchisor wanted to obligate certain elements related to this. The exit franchisees perceived a low to medium OC capa.

For franchisee 14 the relationship was different. He considered the situation as less complicated; for this franchisee the cost level was the only important aspect of the relationship. He did not consider a well-known brand to be so important because his

⁵⁸ It is interesting that for this alternative system the entry and exit barriers were low so franchisee 13 would probably be able to exit this system relatively easily in order to switch back to DA at a later stage.

customers were mainly German tourists who did not care about the DA name. For this franchisee, therefore, only the cost level played a role and he expected that OC profit/cost would become lower in the near future and therefore felt 'forced' to adopt exit. With respect to the other variables, the franchisee perceived medium to high scores on these.

Toward franchisee 13 the franchisor adopted a passive response by just letting him go; he expected that the franchisee could not or would not adopt the future requirements. The response of the franchisor toward franchisee 14 is an interesting one. The franchisor's response was covo; it tried to keep franchisee 14 by offering to lower the costs for this franchisee in the first year. The reason for this was unclear because it was very likely that this franchisee would not be able to meet the requirements in the future (resulting in low SC hard). One explanation is that this franchisee had been involved in working groups in the past and had more personal connections with management.

Summary of determining variables

Table 6.4 presents the determining variables for the different responses during SCT4. Section 6.8 presents more general conclusions based on this table.

Determining variables for franchisees' responses in order of importance					
Covo	Loy	Amloy	Negl	Agvo	Exit
OC profit/cost SC hard SC pos SC innov OC trust/fd SC org OC capa	OC profit/cost SC hard SC pos SC innov OC trust/fd SC org OC capa	OC profit/cost SC hard SC pos SC innov OC trust/fd SC org OC capa	OC profit/cost SC hard SC pos SC innov OC trust/fd SC org OC capa	OC profit/cost SC hard SC pos SC innov OC trust/fd SC org OC capa	Franchisee 13: OC profit/cost SC hard SC pos SC innov SC pos OC trust/fd OC trust/fd SC org SC org OC capa Franchisee 14 (forced): OC costs
Determining variables for franchisor's responses (to franchisees' responses) in order of importance					
Franchisor's response to covo= covo 'Creating support'	Franchisor's response to loy=loy OC capa SC hard OC profit	Franchisor's response to amloy= loy OC capa SC hard OC profit	Franchisor's response to negl=negl OC capa SC hard OC profit	Franchisor's response to Agvo= negl OC capa SC hard OC profit	Franchisor's response to franchisee 13= negl OC capa SC hard OC profit Franchisor's response to franchisee 14= covo Personal bonds?

Table 6.4 Summary of determining variables per response in order of importance for SCT4

6.8 Summary and conclusions for STIP and its SCT's

This section will discuss the three types of conclusions that can be derived from the STIP case, and it has the following structure:

- 6.8.1 Conclusions about the independent variables.
- 6.8.2 Conclusions concerning relationships between independent variables and responses
- 6.8.3 Conclusions about background variables.

6.8.1 Conclusions about the independent variables

This subsection is divided into:

- 1) Independent variables from the franchisees' perspective
- 2) Independent variables from the franchisor's perspective
- 3) Relations between independent variables

1) Independent variables from the franchisees' perspective

Strategic compatibility

For strategic compatibility from the franchisees' perspective, the following conclusions can be drawn based on the STIP case:

- Just as for the DA franchisees, for the STIP franchisees there was also a tension between the desired degree of hardness and the cost level. The franchisees needed to find a balance in this. Some STIP franchisees considered a well-known brand name as more or less important, while for other franchisees a known brand was not important at all. These latter franchisees mostly focused on the cost level of participating in a franchise system. Many STIP franchisees wanted a well-known name but not if it meant costs would be too high. This explains why many STIP franchisees actually thought they should operate under the DA name. In that way they could benefit from a well-known name at relatively low cost. However, management (during SCT1) wanted to keep STIP because they had to deal with another point of tension (see under 'Franchisor's perspective').
- Also, in the STIP case the low degree of enforcement by management influenced the perceptions of the franchisees concerning strategic compatibility during SCT3. The only 'actual' requirements for STIP franchisees were the brochures and the goods that were supplied automatically, by which management¹ tried to give STIP a lower positioning. Because these requirements influenced the franchisees' positioning, SC pos was considered as an important variable by the STIP franchisees during SCT3 (see 6.8.2). For SCT4 it was too soon to determine whether management would actually enforce requirements.
- As was the case at DA, with respect to SC innov three levels of strategic compatibility could be distinguished: the level of new products, the level of new product groups and other business format adaptations, and the level of the business format as a whole. For STIP franchisees introducing new products was important, but less important than for most DA franchisees. This depended greatly on the competitive circumstances of the store (see 6.8.3 about background variables). For STIP franchisees the risks of innovation were even higher than for

DA franchisees because of their relatively low floor area with low and stable turnover levels.

Operational compatibility

- Among the factors in operational compatibility, OC profit/cost (as a variation on OC profit) was the most important variable. As already pointed out for DA, some franchisees emphasized their cost levels because they perceived a stable turnover level: they expected that extra investments and costs would not result in higher turnovers and would therefore result in lower profitability.
- Based on the STIP case, another type of fair dealing can be added to the two types that have been distinguished in the DA chapter (see section 5.8.1): The level of fair dealing among franchise systems of the same franchisor. This level is only relevant for franchisees for whom the franchisor administers more than one franchise system. From the STIP case it became clear that this was an important aspect of fair dealing: several STIP franchisees had the idea that their royalty payments were used for the DA system and not for the STIP system. Additionally, these franchisees not only considered fair dealing from a financial perspective but also from a more psychological perspective: they felt they received less attention and that the franchisor put less effort into them because the STIP stores were not viable.

Alternatives

For alternatives the same applies as for the DA system. It became clear that the franchise relationship should not be seen in a vacuum. During both SCT3 and SCT4 other franchise systems tried to attract STIP franchisees by emphasizing their softness and low cost levels.

Switching costs

For switching costs, the same conclusions as for DA can be drawn based on STIP. Also, for SCT4 'future switching costs' were taken into account because franchisees had to sign a contract that would bind them to the franchisor (see section 5.5.2).

2) Independent variables from the franchisor's perspective

From the franchisor's perspective, the following conclusions can be drawn for the independent variables based on the STIP case:

- For the franchisor an important tension in maintaining STIP alongside DA was the tension between maintaining uniformity versus the costs of maintaining a separate franchise system. STIP was started to deal with the tension between maintaining uniformity and allowing for local adaptation at DA. By means of the STIP system management tried to make the DA system more homogeneous, which would make it easier to introduce certain requirements and a certain degree of hardness and would make DA more uniform. However, maintaining the STIP system as a separate system had certain 'costs' (for example in specific STIP promotional activities, specific STIP managers, or lower economies of scale). In sum, management had to balance the benefits of a uniform DA system versus the costs of the separate STIP system.
- As the timelines for positioning, degree of hardness, rate of innovation and growth objectives illustrate (Fig. 6.3 to 6.5 and 6.6), there were large differences between

the franchise system characteristics scores desired by the management and ‘what actually happened’ with the franchise system characteristics. This was also the case at DA. This was true for SCT3; however, for SCT4 it was too soon to determine whether this was the case. The huge gap between desired and actual scores on the franchise system characteristics were caused by a low degree of enforcement by management¹. In turn, this low degree of enforcement resulted from the tension between imposing requirements versus losing franchisees. Because management was afraid that too many franchisees (and wholesale customers) would exit, it did not dare to impose as many requirements as it actually wanted. Another aspect that caused the large gap between the franchisor’s desired degree of hardness and what actually happened was the franchisees’ perception of ‘unfair dealing’. Because franchisees felt that the franchisor made a lot of money by introducing requirements, several franchisees did not want to adopt these requirements.

- Just as for the DA case, SC org with specific franchisees was not so important for management; management mainly intended to use the organization of strategic participation as a way of creating support for the changes during SCT3 and SCT4. As pointed out, for SCT3 this did not work well due to a lack of procedures which resulted in a low SC org by the franchisees.

3) Relationships between independent variables

As already pointed out in the conclusions for the DA case, there were several indications of relationships between independent variables and their indicators. For the STIP case there were the following relationships:

- As pointed out, STIP franchisees mostly concentrated on the cost levels of participation. However, the costs of participating were influenced by developments with respect to indicators of other independent variables. Regarding the franchise system characteristics, the developments with respect to degree of hardness, positioning, rate of innovation and growth objectives influenced cost levels. A higher degree of hardness resulted in more requirements, which required more investments and therefore resulted in higher costs. A lower positioning meant that the franchisees had more aggressive promotional activities and had lower profit margins (lower profitability). A higher rate of innovation meant that franchisees had to adopt certain innovations which would result in certain costs. For growth objectives, it was possible that the franchisor would require the franchisee to renovate his store or to relocate, which would increase the franchisee’s cost level. However, during SCT3 the only actual requirements were with respect to positioning. As for the other franchise system characteristics, the franchisees still had a large degree of freedom and therefore they themselves could influence their cost level. With respect to operational compatibility, franchisees had to pay for certain of the franchisor’s capabilities. Several of these factors influenced the franchisee’s cost level: automation, purchasing prices and logistics. However, during SCT3 the franchisees were still free to choose what to do about these factors, so it did not matter. The costs of franchisor capabilities only became a problem in SCT4 when the franchisor wanted to require the franchisees to obtain certain services from the franchisor, which, in turn, would directly affect their cost level. Therefore, this resulted in active franchisee responses during SCT4.
- Several respondents implicitly indicated relations between the franchise system characteristics, such as positioning and degree of hardness, or rate of innovation

and degree of hardness, and rate of innovation and type of growth objectives. It would be going too far to discuss this here in detail, but Chapter 9 will present a more systematic analysis of possible relationships between the franchise system characteristics.

- As already pointed out for DA, there is a relationship between the ‘actual’ degree of hardness and the height of switching costs. An increase in the actual degree of hardness requires more specific investments by franchisees and therefore causes higher switching costs. During SCT3 this did not occur because the franchisor had a low degree of enforcement and the franchisees did not have to make specific investments. For SCT4, the franchisees who signed the FSO were supposed to make specific investments in the future, thereby increasing their ‘future switching costs’.

6.8.2 Conclusions concerning relationships between independent variables and responses

This section consists of two subsections:

- 1) Conclusions for the franchisees’ perspective
- 2) Conclusions for the franchisor’s perspective

1) Conclusions for the franchisees’ perspective

For the franchisees’ perspective there are two types of conclusions:

- Conclusions for the responses as such
- Conclusions on relations between independent variables and responses

Conclusions for the responses as such

As was the case for DA, the responses during SCT3 and SCT4 were more heterogeneous than currently assumed in the literature. These different responses became especially clear for the franchisees. Also for the STIP case, the responses of the franchisor were more ‘stable’; they were mostly passive responses. Only in those cases where the franchisor really was afraid of losing a franchisee did it adopt an active response. Based on the STIP case, the following conclusions can be drawn for the current typology of responses.

- First, the ‘ambiguous loyalty’ response (amloy) was also present in the STIP case, and especially during SCT4. For the STIP case, this turned out to be a ‘dangerous’ response also because it was not visible to the management and some franchisees adopting this response quickly adopted exit that was unexpected for management. Moreover, the STIP case shows that a response is not always what it seems to the franchisor. During SCT4, one franchisee signed the FSO but he expected to be able to wriggle out of several requirements stated in it.
- Second, STIP franchisees adopting covo differed in their motives for doing this. Some franchisees adopted covo because they felt ‘forced’ to do so; they felt that if they did not adopt covo, the relationship with the franchisor would deteriorate, resulting in an undesirable situation. This type of covo can be termed ‘forced-covo’. In contrast, other franchisees adopted covo because they agreed with management’s plans and wanted to be actively involved in discussing future possibilities. The response of these franchisees can be seen as ‘voluntary-covo’.

These franchisees often had close personal contacts with management and, in turn, were 'used' by the management to create support among the larger group of franchisees.

- Third, as in the DA case, the same distinction between forced and voluntary can be made for the exit response. Several franchisees adopted exit because they felt 'forced' to do so; they felt that if they stayed an unbearable situation would arise. A few other franchisees did not really feel forced to exit, but were 'pulled' toward a more attractive opportunity. For both SCTs, it turned out that franchisees adopting 'forced-exit' often switched to an alternative with medium attractiveness. One interesting issue is that one STIP franchisee adopted 'voluntary-exit', but did not exclude the possibility of returning to DA once everything 'settled' down. This franchisee entered UED; however, he actually entered under 'ambiguous loyalty'. Because UED was so soft this made an ambiguous entry possible. This also shows that exit does not have to be forever and that franchise relationships can be 'renewed'.
- In the STIP case several franchisees adopted a specific type of agvo, namely 'collective agvo'. This can be explained by the fact that the STIP franchisees were relatively small franchisees who were not so powerful on their own. By adopting a collective response they expected to become more powerful.

Conclusions about relations between independent variables and responses

Just as in the DA case, the STIP case shows that the following elements are important for the understanding of a franchisee's response at a certain point in time:

- The franchisee's determining variables at that point in time; in other words, which variables does the franchisee consider important in the relationship at that point in time. As will be pointed out below, the order of importance in determining variables differed between franchisees and situations.
- The franchisee's perceptions of these determining variables at that point in time.
- The franchisee's thresholds on these determining variables. By 'threshold' is meant that the franchisee accepts a certain level for degree of strategic or operational compatibility; once that level was reached the franchisee adopted another response to deal with this, and in most cases this was an active response.
- The franchisee's expectations of future developments in these determining variables. It became clear that differences between the franchise partners' desired scores on the franchise system characteristics indeed played a role in the adoption of responses during SCT3 and SCT4, namely because they influenced the partners' expectations about the future situation. For example, a franchisee might perceive a medium or high SC hard at a certain point in time, but he might expect it to be lower in the near future due to a different score desired by the franchisor. It turned out that this also influenced the franchisees' responses.

Moreover, it has become clear that franchisees switched between responses due to certain 'triggers'. For the STIP franchisees these triggers were the same as the triggers for DA franchisees; these were changes in the franchise system characteristics (mostly hardness and positioning), changes in operational compatibility (mostly OC profit and OC profit/cost) and responses by the franchisor.

With respect to the determining variables, the following conclusions can be drawn based on the STIP case:

- The same determining variables played a role for all responses during SCT3 (except for the negl response). OC profit/cost and SC hard were the most important variables. This had to do with the tension between a desired degree of hardness and a certain cost level. The STIP franchisees differed in the way they saw this tension and they differed in their thresholds for desired degree of hardness and cost level. For franchisees who did not consider a well-known brand name as important, these thresholds were lowest, and they more quickly switched to an active response.
- During SCT3 there still was a low degree of enforcement, and therefore most variables were only slightly determinant. Once the franchisor wanted to impose more requirements, the situation got more complex because certain variables became more important in the eyes of the franchisees. During SCT3 there were some requirements with regard to positioning and rate of innovation at the product level. Therefore SC pos and SC innov were already determinant during SCT3. Moreover, OC trust/fd and SC org were determinant, but only with respect to those few requirements at that time. During SCT4 the franchisor wanted to introduce more requirements and therefore certain determining variables became even more determinant. In sum, as soon as the franchisor wanted to oblige certain aspects, it was important that franchisees should perceive a certain degree of compatibility on these things. Moreover, the higher the degree of requirements, the more important the franchisees' perceptions of OC trust/fd and SC org. With more requirements the franchisee became more dependent on the franchisor and therefore it was important for the franchisee to believe that the franchisor would not act opportunistically and would take the franchisees' interests to heart.
- As was the case for DA, there was a 'hierarchy' in determining variables as far as the degree to which they might influence the franchisees' responses. First, the franchisee evaluated different factors of strategic and operational compatibility. As pointed out, the exact order of these variables depended on the situation: which factors were obligatory and which were not. The result of the evaluation of SC and OC influenced whether the franchisee consciously evaluated alternatives. A dissatisfied franchisee accepted alternatives within certain boundaries; in some cases where the franchisee was very dissatisfied with his current relationship, he accepted a 'mediocre' alternative, and actually entered this one under 'ambiguous loyalty'. This also makes it very probable that more franchisees might enter such alternatives under 'ambiguous loyalty' just to see what would happen there. In the STIP case (and also in the DA case), these alternatives were softer systems with low entry and exit barriers which could well result in a dynamic situation of exits and entries when changes in drugstore systems were introduced.

2) Conclusions for the franchisor's perspective

In the STIP case too, the franchisor's responses were relatively stable as compared to the franchisees' responses. Whether the franchisee could fulfill his financial requirements (OC capa) was considered a necessary condition; thus this was always a determining variable.

For the franchisor the other determining variables were mostly the same: SC hard and OC profit. Especially before SCT3, it did not matter to the franchisor whether a specific franchise relationship was very profitable or not. As long as the relationship was profitable

for the franchisor and the franchisee paid his financial requirements, there was no problem. However, when management wanted an increasing degree of hardness, tension arose between enforcing requirements on franchisees who did not want to adopt requirements and the risk of losing profitable franchisees. The higher the desired degree of hardness by the franchisor and the higher the profitability of the franchisee for the franchisor, the greater this tension. During SCT4, the franchisor attached more importance to enforcing requirements. The franchisor adopted loyalty when it expected that a franchisee could and wanted to go along with the increasing degree of hardness. Toward the franchisees whom the franchisor expected would not adopt the requirements, the franchisor mostly adopted neglect; it expected that these franchisees would decide to exit by themselves. During SCT4, management expected to adopt exit responses by itself in order to break off with franchisees who did not want to adopt the FSO and its requirements. It is interesting to see that management only adopted coercion toward franchisees which it thought could help it in creating support among the larger group of franchisees, or when the franchisor really did not want to lose specific franchisees.

6.8.3 Conclusions about background variables

This section consists of two parts:

- 1) Background variables from the franchisees' perspective
- 2) Background variables from the franchisor's perspective

1) Background variables from the franchisees' perspective

The following four groups of background variables are distinguished:

- Store characteristics
- Franchisee characteristics
- Franchisor/managerial characteristics
- Characteristics of the franchise system.

These four groups in turn consist of other variables, which are discussed below.

Store characteristics

- Location characteristics. Section 5.8.3 already discussed a store's competitive circumstances as an important background variable. This was the same for the STIP system: franchisees differed in their desire for certain scores, especially on the franchise system characteristics and cost levels. Most STIP stores were located in villages and had relatively low and stable turnover levels and did not consider a well-known name as necessary. However, some franchisees wanted a well-known brand name because they were located in tourist villages where the DA name was known to the customers (Dutch tourists).
- Store performance. This was a background variable for the same reason as at DA, and therefore please refer to section 5.8.3.

Franchisee characteristics

- Personal/psychological characteristics. As was the case at DA, for some STIP franchisees their independence as a small business owner was very important, and therefore they did not want a designated degree of hardness.

- ‘History’ of the franchisee. Several STIP franchisees had felt forced to switch from DA to STIP due to the increasing requirements at DA. They actually felt ‘thrown out’ of DA and therefore were very sensitive to the treatment of STIP franchisees as compared to DA franchisees (this is the new level of fair dealing that was distinguished in this chapter). The management also argued that former DA franchisees were more hesitant about adopting designated changes than completely new STIP franchisees.
- Membership in the Franchise Board (Board of Participants). For STIP the same applied as for DA: members of the STIP Board of Participants often perceived a higher OC trust/fd than non-members. Moreover, because the members had such close contact with management, management could more easily convince them of the need for designated changes, which very probably resulted in the higher degrees of strategic compatibility as regards certain franchise system characteristics.

Franchisor/managerial characteristics

- ‘Style’ of the management. Management’s style can be characterized as an ‘authoritarian style’ as opposed to a ‘participative style’. As was the case for DA, several STIP franchisees perceived management’s style as authoritarian, which influenced their perceptions of the relationship and their responses. Management’s authoritarian style at the very least influenced the franchisees’ perceptions of the degree of hardness and therefore indirectly influenced SC hard.
- ‘History’ of the management. For this background variable the same applies as for DA. The history of management created certain expectations for the STIP franchisees about the objectives of these managers and their management style.

Characteristics of the franchise system

- History of the STIP system. The way STIP was started had always influenced the relationship between franchisor and franchisees and the development of the STIP system. Because STIP was started as a system for DA franchisees who could not go along with certain requirements, STIP was seen as a ‘demotion’ for these franchisees. Because these franchisees preferred to operate under the DA name, they were hesitant to adopt changes for STIP. Moreover, because STIP franchisees indirectly paid the salaries of management (via their membership in the Druggists’ Association), they felt that management should not be imposing requirements on them.

2) Background variables from the franchisor’s perspective

Since the franchisor for DA was the same as for STIP, the background variables for the franchisor are discussed in section 5.8.3.

