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Strategic Interactions in Franchise Relationships

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8 The UED system

The abbreviation UED stands for the Dutch words ‘Uw Eigen Drogist’. Translated into English this means ‘Your Own Druggist’. For the sake of readability, I will use the abbreviation UED when I refer to ‘Uw Eigen Drogist’.

Section 1 will introduce the SCTs for UED, while sections 2 to 5 will 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 will discuss the responses that franchise partners adopted toward each other during both SCTs. Section 7 then will take a closer look at individual franchise relationships by analyzing which independent variables influenced the franchise partners’ adoption of responses. Finally, section 8 will present the three types of conclusions (see section 4.3.5) based on the UED system and its SCTs.

8.1 Historical sketch of UED and an introduction to its SCTs

8.1.1 Historical sketch of UED

The franchisor of the UED system is the Dutch wholesaler Brocacef BV, which is a 100% subsidiary of Brocacef Holding NV (see Fig. 8.1). Brocacef Holding NV is in turn 100% owned by the German pharmaceutical wholesaler Phoenix Pharmahandel Aktiengesellschaft & Co. The Brocacef Holding has several subsidiaries whose core activity is the wholesale trade in pharmaceutical, medical, and non-prescription retail products. The most important customers of these subsidiaries are Dutch hospitals, pharmacies, general practitioners with their own pharmacies, and druggists.

This chapter will focus on the subsidiary Brocacef BV, which is a wholesaler for drugstore and pharmaceutical products and the franchisor of the UED drugstore system. In earlier years, the drugstore activities were performed by a separate subsidiary called Brocacef Drogisten BV, but in 2002, Brocacef Drogisten BV was integrated with the pharmacist wholesale activities into Brocacef BV. Within Brocacef BV, Brocacef Drogisten became a profit center with its own management. Therefore, when the term ‘management’ is used in this chapter, this refers to the management of Brocacef’s drugstore activities.

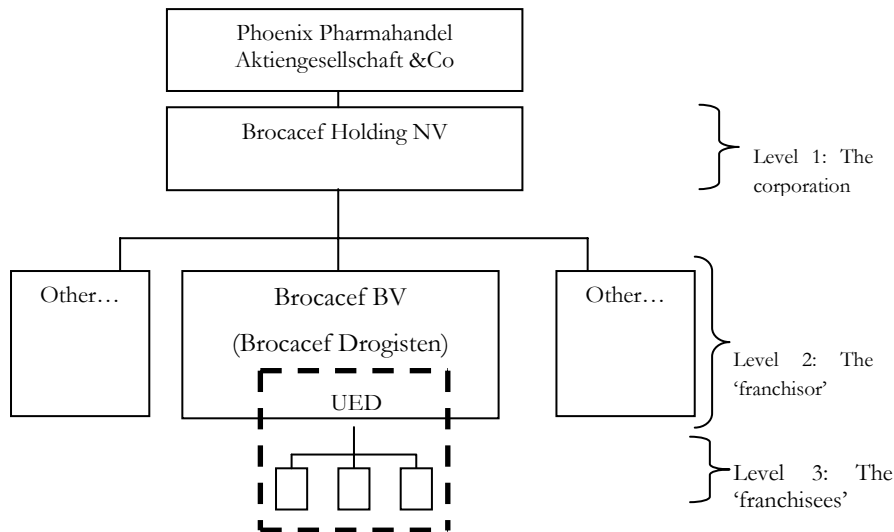


Fig. 8.1: Levels of analysis in the UED system (in 2004)

The activities of Brocacef and its Holding originally started in 1969 after a merger between two Dutch wholesalers: 'ACF Farmaceutische Groothandel NV' and 'Brocades Stheeman NV'. Brocacef Drogisten had originally started as a wholesaler for independent druggists, but in the early 1990s it started a franchise-like system under the UED name. The history of the UED system actually began a few years earlier when Brocacef Drogisten introduced so-called 'Brocacef Support' (BS) for its customers, who were mainly CIDs. This meant that Brocacef regularly monitored the prices of certain popular drugstore products in the market, and gave independent druggists the guarantee that they could purchase these products for a lower price at Brocacef in order to compete with the prices in the larger drugstore chains. BS was a reaction to the upcoming discounting drugstore systems, such as Kruidvat. At the time, management thought that independent druggists needed to show their customers that they could match the prices of these discounting systems.

Initially, druggists who purchased the BS products from Brocacef had only two requirements. First, they had to communicate the lower prices of these products to customers by means of cards on their store shelves. Second, they had to order a certain quantity of the BS products. In the early 1990s, the UED-name was introduced for the druggists who offered the BS products in their stores, and they started operating under a common logo: a butterfly. Gradually, Brocacef introduced more UED promotional materials and brochures in order to communicate the attractive prices for BS products inside and outside the stores.

This loose form of cooperation between Brocacef and the independent druggists existed for several years. Around 1996, it was formalized by a contract. At the same time, certain drugstore products were developed under the UED name, and a Franchise Board⁶⁷ for the UED franchisees was established. In 1996, UED consisted of 60 druggists, and in about one and a half years it grew very quickly to 180 druggists. This growth was due to two groups of entrants. First, druggists who exchanged their completely independent status

⁶⁷ In the UED system this board was called the 'Panelraad'.

for membership of a franchise-like system: in this case the UED system. Second, growth was due to several former DA franchisees who had switched to UED due to dissatisfaction with DA during SCT1 (see Chapter 5).

All UED stores were owned by ‘franchisees’⁶⁸, and the size and composition of the group of UED franchisees changed dramatically over time. In the mid-1990s, the number of UED franchisees had rapidly grown to a maximum of 180 druggists. However, around 1997/1998 the number of UED franchisees dropped due to a prospective acquisition by a competitor and the disappearance of several small UED stores. Around 2003/2004, UED attracted several (about 30) new UED druggists from the DA- and STIP-systems. On the other hand, it lost about 30 smaller UED franchisees who could not survive and had to close their drugstores. Although there were several entries and exits, the number of UED franchisees remained stable at around 130 for several years.

The UED stores were often located in villages or suburbs of smaller towns. In the villages, UED franchisees often combined their drugstores with other activities, such as toy stores or bookstores because their local markets were too small for only drugstore products. These activities are often performed under other franchise or franchise-like systems, for example Primera for bookstores and Top-1-Toys for toys. These activities were not explicitly part of the UED format, and were therefore not considered in this study.

For UED, this study focuses on two strategic change trajectories (SCTs). The first SCT is the prospective acquisition of the former Brocacef Drogisten by a competitor around 1998 (SCT 7: ‘Prospective acquisition’, see section 8.1.2). The second SCT focuses on the hardening of the UED system that started in 2002 (SCT8: ‘Some hardening’, see section 8.1.3). Management during SCT7 is referred to as management7, while management during SCT8 is referred to as management8.

The developments in the UED system over time are summarized in Fig. 8.2. Management could not point exactly to a definite year when the BS and UED systems started; therefore these are indicated with +/-.

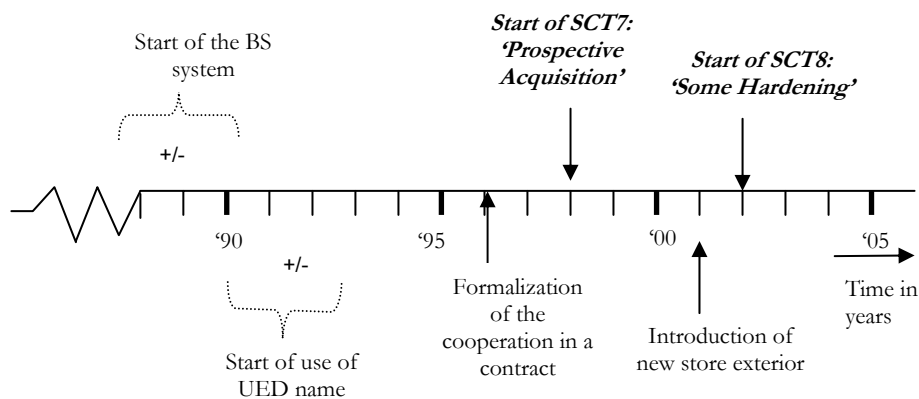


Figure 8.2: A general timeline for the UED system

⁶⁸As already mentioned in Chapter 4, the term franchising has a negative connotation for some druggists. However, this is an issue of definition, and not of preferences in the field.

8.1.2 Introduction to SCT7: 'Prospective Acquisition'

In February 1998, Brocacef Holding decided that it wanted to dispose of its drugstore wholesaler Brocacef Drogisten. At the time, this subsidiary was unprofitable and it was only a small part of the Holding's activities. Therefore, the Holding wanted to sell it to Internatio Müller NV (further: Internatio), which at that time partly owned Dynadro BV and Dynaretail BV (see Chapter 5). The parties planned that Brocacef Drogisten BV would eventually merge with Internatio's partly owned subsidiary Dynadro BV.

This prospective acquisition caused some 'anxiety' among UED franchisees because they were afraid that Dynadro would become their wholesaler and franchisor. In previous years, several druggists had switched from DA to UED due to dissatisfaction with the DA system and its franchisor, and they were afraid of being incorporated once again into the DA system with all its requirements.

Preparations for the acquisition were at a relatively late stage when the acquisition was cancelled due to an intervention by the Netherlands Competition Authority⁶⁹ in August 1998. After this cancellation, the Holding decided to keep its subsidiary Brocacef Drogisten BV. However, the UED franchisees were afraid that the Holding would still sell Brocacef Drogisten BV to another company. In other words, the franchisees did not believe that the Holding had the intention of keeping the drugstore subsidiary and they thought that the Holding would not invest in the development of the UED system anymore. According to a manager, it took the management about two years to regain the trust of the UED franchisees.

For management⁷ and the UED franchisees the 'Prospective Acquisition' and its eventual cancellation was an unpleasant period. Several franchisees left the UED system because they were afraid of becoming part of the DA system. In the same period, it also appeared that UED had attracted franchisees who could not meet the requirements of the UED system, and they gradually left the system. In sum, around the period of the 'Prospective acquisition', the number of UED franchisees dropped from 180 to about 130.

In 1999, a new CEO for Brocacef Drogisten BV was appointed to reanimate the drugstore activities. In 2001, the Holding decided to integrate the drugstore activities along with the pharmacist and hospital wholesaling activities into Brocacef BV with a separate drugstore department. This was done to show the UED franchisees that the Holding no longer intended to sell its Brocacef Drogisten subsidiary, and that it had become an important part of the Holding's activities. In 2003, the management of Brocacef's drugstore department introduced their plans to the UED franchisees to 'harden' the UED system in order to strengthen UED's position in the drugstore market (SCT8: 'Some hardening').

8.1.3 Introduction to SCT8: 'Some Hardening'

In 2002, management⁸ perceived the need to evaluate UED's position in the market. A general customer research project (by Popai) into the Dutch drugstore industry had shown that customers did not know the UED name and did not know what it meant. Additionally, the Popai research showed that the power of independent druggists as a whole had become less over time, and also that the market share of UED in the drugstore industry had declined. This decline was due to the rise of drugstore chain stores, the rise of

⁶⁹ In Dutch this is the NMA: Nederlandse Mededingings Autoriteit.

relatively hard drugstore franchise systems, and the rise of supermarkets and other channels that sold traditional drugstore products.

Management8 thought that the drugstore market had changed and that the UED system needed to be modified in order to survive. To ground its ideas, management hired a research agency (Synovate) to conduct research specifically among UED franchisees. This agency sent out a questionnaire to the 132 UED franchisees at that time.

This research showed an ambiguous picture. On the one hand, UED franchisees were not satisfied with the power of their system in the drugstore market, but, on the other hand, they did not want to lose their freedom. This research also showed that two types of UED franchisees could be distinguished: 'satisfied druggists' and 'driven druggists'. The 'satisfied druggists' were often older and were more focused on the here and now and less on the future, and they were resigned to the developments in the drugstore sector. On the other hand, the 'driven druggists' were the relatively young UED druggists with many plans for the future and a more 'proactive' attitude.

Based on the results of these studies, management concluded that UED needed to become more uniform and, therefore, needed to become harder in order to deal with these developments. Furthermore, management wanted to improve their bargaining power vis-à-vis suppliers by increasing requirements for the UED franchisees. The proposed modifications were discussed with the Franchise Board at the end of 2002 and the beginning of 2003. After several meetings and discussions with the Franchise Board, management presented their plans for renewal of the UED system at a yearly conference in March 2003, before all the UED franchisees.

In sum, the most important changes were the following.

- Management8 aimed to increase the uniform look of UED vis-à-vis customers, and, therefore, they wanted to introduce more requirements for their franchisees (see section 8.2.2). The increased requirements for the UED franchisees included using a new store exterior⁷⁰, a certain basic assortment and participation in certain promotional activities. Management presented the requirements in a new contract with a format handbook attached to it, which they wanted to be signed by January 1, 2004.
- UED had always consisted of two modules. Module 1 was a very specialist module, and these stores had a very deep assortment of health products, such as homeopathy, health food, vitamins, etc. These stores had very few beauty and care products. Module 2 was more like a regular drugstore with a broader assortment including health, beauty and care products. Most UED franchisees used Module 2, while only a small section of the UED druggists (about ten) operated under Module 1. Management decided to continue with Module 2 and to dissolve Module 1 for three reasons. First, the management thought that the use of these two different modules hindered the uniformity of the UED system. Second, Module 1 was used by only a small group of stores, which made it more logical to dissolve Module 1 than it did Module 2. Third, in recent years, several other retail systems had sprung up that were direct competitors to module 1, such as Body Vitaal, Het Vitaminehuis and Gezond & Wel.

⁷⁰ The basis for this new exterior was already developed in 2001, and at that time management already planned for all the stores to be changed by January 2004. It was slightly modified for the new look. The most important change was the removal of the butterfly from the UED logo, so the logo would only consist of a white cross, which would give UED a clean and pharmacy-like look.

8.2 Strategic compatibility

8.2.1 Strategic compatibility regarding positioning during SCT7

What the franchisor and franchisees wanted, and what actually happened

As pointed out, at the time of the Prospective acquisition, management was busy with the general problems involved in merging the two organizations, and there were no developments intended for the UED system's characteristics.

Some franchisees waited to see what was going to happen, while others decided to leave UED anticipating possible problems. Most UED franchisees were the more 'traditional' drugstores in which the traditional drugstore products of health, beauty and care formed a large part of the assortment for which advice and service was considered very important. Of these, the health products were considered the most important element in the UED system. Several of these druggists had come from DA because they did not agree with the obligatory non-drugstore-related products that had been supplied automatically during SCT1. They agreed with the positioning of UED the way it was. They were afraid that the UED system would be eventually merged with the DA system, and that they would be obligated to have more non-drugstore-related products in their assortment.

8.2.2 Strategic compatibility regarding positioning during SCT8

What the franchisor wanted

The desired positioning by the franchisor never drastically changed; the UED stores had always been positioned relatively high in the market. As mentioned earlier, the UED stores were often the more 'traditional drugstores' with a large focus on health products. Management8 did not want to change that drastically; it restated that health was UED's most important activity, for which advice and service to the customer would always remain important. In order to restate this focus on health, management determined a certain basic health assortment that needed to be present in all UED stores. It focused on these specialized health products for two reasons.

- Management8 experienced fierce competition in the field of regular drugstore products. Gradually, supermarkets and even gas stations had started offering these products, and these parties also wanted to include non-prescription drugs in their assortments. Management8 thought this was very likely to occur in the future due to changes in legislation, and it thought that once these products reached these channels, they would become commodities and margins would go down. To escape this fierce competition, management thought UED needed to specialize in health and advising customers.
- The second reason for focusing on the health aspect was because this was close to Brocacef Holding's core activities. These were all related to health; therefore, it would be a better fit with Brocacef's and the Holding's general strategy. Management focused less on the beauty aspect (compared to DA and ETOS) because this was not a core activity for Brocacef. they could not supply luxury perfumes and cosmetics since they lacked contracts with luxury suppliers. Moreover, the individual UED franchisees did not have such contracts either.

Management wanted to keep the degree of non-drugstore-related products low. In some cases, it added some so-called ‘fun articles’ to the promotional brochures, but these were only a very small part of the total assortment, and they were always more or less drugstore-related. One important development for UED was the introduction in July 2004 of their own brand of products that focused more on the lower part of the market. This brand was called ‘Basic’, and it was exclusively for UED franchisees and druggists that were part of the REZO group (see section 4.3.2). At the time, this REZO group was a group of about 50 completely independent druggists (CIDs) that only cooperated on the level of brochures (no common name toward customers). Over time the REZO group had attracted several former DA franchisees who missed the house brand they had had at the DA system. Therefore, Brocacef and the REZO group had started a cooperative to develop a house brand for these druggists. However, management did not want to force the UED franchisees into selling these products immediately because the franchisees had just signed new contracts and it did not want to impose these requirements so shortly after that.

In terms of promotional activities, management did not want to drastically change the number of promotional and theme brochures⁷¹ for UED, but it wanted a few more promotional brochures with more drugstore-related products attached to them. The frequency of promotional brochures was low compared to other systems such as DA and ETOS. The promotional brochures had two objectives. First, they were used to convince customers that UED stores were not expensive or, in other words, to avoid a pricey image. Second, these brochures were expected to attract customers to the stores or, in other words, to generate ‘traffic’. Besides the promotional brochures, UED had two types of theme brochures emphasizing its specialization in health, and these were sent out several times a year.

Management wanted the UED franchisees to adopt the new store exterior that was introduced in 2001. Before that time, UED stores had different store exteriors, and UED druggists could choose from different colors. Therefore, some stores were red, some were dark green, and some had a yellow color. One important goal of management was to change all these different store exteriors to one uniform store exterior that was aimed at emphasizing UED’s specialization in health. According to one manager: *‘The store exterior is supposed to give a fresh, clean, and pharmacy-like look’*. This idea was also reflected in the new logo: a white cross with a green background.

What franchisees wanted

The majority of UED franchisees agreed with the basic health assortment because most of them already had the health products that were part of the new basic assortment.

However, with respect to the drugstore-related products UED franchisees’ opinions differed. On the one hand, most ‘satisfied druggists’ agreed with the low number of drugstore-related and non-drugstore-related products because they were afraid that these products would not sell. On the other hand, the driven druggists thought the degree of drugstore-related and non-drugstore-related products was too low because these products could attract customers into their stores. These franchisees pointed out that the UED system was not ‘active’ or ‘aggressive’ enough. This was especially true for several former DA franchisees, who pointed out that the degree of drugstore-related and non-drugstore-related products at UED was very low compared to the DA system. As one former DA franchisee put it: *‘We switched to the UED system, and that is actually a ‘sluggish’ system. Once every*

⁷¹ After consultation with the Franchise Board, only slight changes were made in the number of brochures.

four to six weeks there is a brochure that is much less aggressive with almost no drugstore-related or non-drugstore-related products. And that's what we wanted, but this is the other extreme. Actually, we would like to have some more drugstore-related and non-drugstore-related products, just not too many, and we'd like to have some more brochures. We feel that we've switched from the one extreme to the other, but if we have to choose, we'd rather choose UED than DA because now we're practicing our profession instead of selling products that we don't know anything about in our profession.'

In sum, for most UED franchisees the health aspect remained the most important element, but several of them wanted a few more drugstore-related products; these were mostly the 'driven druggists'. This group of driven druggists became larger from 2003/2004 because several former DA and STIP franchisees then entered UED. One manager estimated that the percentage of driven and satisfied druggists had changed from 40-60 in earlier years to 70-30 in 2004.

What actually happened

Management's and the driven UED druggists' objectives with respect to positioning were very close to each other. Both partners agreed that UED should position itself as specialists in health, with some attention to drugstore-related products and possibly non-drugstore-related products and attractive prices. However, the satisfied druggists had problems with these changes and mainly wanted to leave things the way they were, which slightly delayed the developments in UED's positioning. The research by Popai had shown that an important strength of the UED drugstores, according to customers, was the UED stores' specialization in health. However, an important weakness according to the research was UED's pricey image according to customers.

In sum, the franchisor had always wanted to position the UED system as a specialist in health, but the communication of attractive prices by means of brochures and the relatively cheap 'Basic' assortment had become more important issues in recent years. The group of UED franchisees can be divided into two groups based on their desired positioning: the satisfied and the driven druggists. The group of driven druggists had become larger, and therefore the actual positioning had changed rather quickly in recent years.

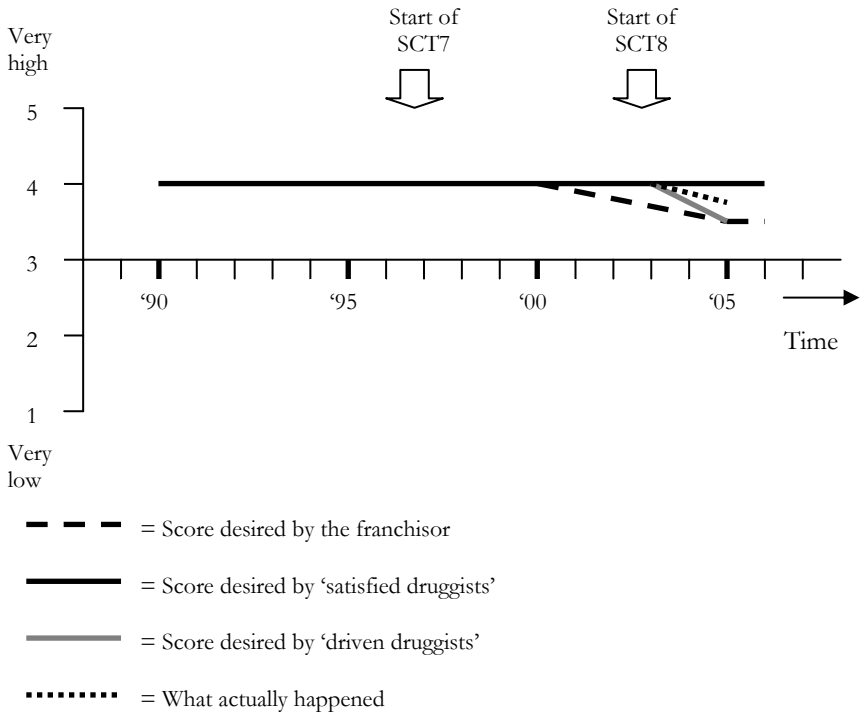


Fig. 8.3: Timeline for positioning

8.2.3 Strategic compatibility regarding degree of hardness during SCT7

What the franchisor and franchisees wanted, and what actually happened

From its beginnings, the UED system had been a very soft system. In the early years of the UED system, the only requirement for UED franchisees was to use the UED name on their store exteriors, to offer the BS products in their stores and to purchase these products at Brocacef. Gradually, the use of some UED promotional materials was added to these requirements, but this was not actually enforced by management. During the 'Prospective Acquisition', the UED system as such did not change in its degree of hardness because management was too busy with general problems of merging two organizations.

However, many UED franchisees were afraid of becoming members of the harder DA system, and they wanted to avoid this because they often came from the DA system and they had left because of the increasing requirements in the DA system, which were especially the automatically supplied non-drugstore-related products, see section 5.2.1 and 5.2.3. Other UED franchisees had, when they started, explicitly chosen for the UED system instead of DA or STIP, and they were afraid that they would eventually become part of the DA system with its greater requirements.

8.2.4 Strategic compatibility regarding degree of hardness during SCT8

What the franchisor wanted

The name 'Some Hardening' already indicates that the most important changes during SCT8 were to the degree of hardness of the UED system. These changes were established in a new contract accompanied by a format handbook. Before that time, every year a plan of action was developed in which all promotional activities and the costs of participating in the UED system were presented.

As mentioned, before SCT8, practically the only thing the UED franchisees had in common had been the use of the BS system and the UED sign on their store exteriors. UED brochures were also supposed to be distributed, but management had not checked whether the brochures were actually sent out and they had not enforced this. In several cases, the franchisee did not send out the brochures because it often cost them more than it yielded. Several franchisees felt that it took them a lot of time and money to have the products of the brochures in their stores, while it attracted only a few extra customers. As one franchisee put it who wanted to exit in a reaction to SCT8: *'When you send out brochures in your neighborhood, there will always be some customers coming into the store for the promotional products. So, when customers come for these products, I need to have these products in my store so as not to disappoint them. I often have to specifically order these products because they are not part of my regular assortment (the promotional products are, for example, brand Y, while the franchisee has brand X in his assortment, EC). Then I have to order a large amount of these products to keep up my profit margins, while there are only a few customers buying the products. Therefore, sending out the brochures often costs me more than it brings in, and I often throw the brochures in the trash can.'*

From the mid-1990s, management had tried to gradually increase the number of brochures, but the UED franchisees did not really cooperate. Around 1999/2000, management decided to actually introduce requirements with respect to brochures in order to improve their negotiation position vis-à-vis their suppliers. They wanted the franchisees to send out brochures with promotional products and to actually offer the promotional products in their stores. Management had made agreements with the Franchise Board about this, but several franchisees had ignored these changes and had not sent out the brochures and offered the promotional products in their stores. Therefore, during 'Some Hardening' management was cautious about imposing requirements.

During Some Hardening, management initially planned to require several other business format elements along with the brochures and promotional products. However, after consultation with the Franchise Board a distinction was made between 'required elements' and elements that UED franchisees were 'strongly advised' to participate in.

The required business format elements were the following.

- The adoption of the new store exterior.
- The use of a certain basic assortment of health products.
- The use of the UED logo in communications both inside and outside the store.
- The sending out of the promotional and theme brochures with a very small amount of products from the brochures that were automatically supplied to the druggists.
- The use of UED in-store materials (so-called 'point-of-sales material').
- Participation in the UED client card and UED gift coupons.

The 'strongly advised' elements of the business format were the following.

- The use of the 'shelf designs' with a certain look of products in the stores.

- Second, automation was a strongly advised element, but there was no prescribed automation system for the druggists to use.
- Third, the UED franchisees were asked to provide information about their turnover levels.

In addition to the requirements for business format elements, during Some Hardening a few ‘other requirements’ were added for the franchisees. An important change was in obligatory purchasing at Brocacef; the new contract stated that UED franchisees should purchase at least 70% of their total drugstore assortments at Brocacef. In the old contract, Brocacef agreed upon a minimum amount of purchasing at Brocacef with each individual druggist. In addition to obligatory purchasing, the new contract contained some new clauses that were focused on the ‘protection’ of the UED system. The old contract was a one-year contract that only stated the costs of participating in the UED system and a few requirements for the UED franchisees, while the new contract was a two-year contract with more requirements stated in more specific clauses. One important change was the ‘selling clause’. The old contract stated that Brocacef had the first right to buy the drugstore when the UED franchisee wanted to sell it. If the druggist did not do this, he would have to pay a fine of 20% of his yearly sales to Brocacef. The clause with respect to selling the store remained, but the fine was changed to a fixed amount of EUR 100,000. Additionally, the new contract stated that when a UED franchisee wanted someone else to take over the store, Brocacef would have to give permission for this.

Compared to DA and ETOS, UED was supposed to stay relatively soft, which was emphasized by Brocacef vis-à-vis their own franchisees and other druggists, whom the management especially tried to attract from the DA and STIP systems. At the end of 2003, Brocacef sent information about the UED system to all DA and STIP franchisees in order to emphasize that the UED system was a soft system where the druggists would have a lot of freedom to adjust to their local markets. In other words, management used UED’s relative softness to deliberately attract DA and STIP franchisees.

What franchisees wanted

Most UED franchisees agreed with the introduction of the basic assortment because they often already had these products in their stores. The brochures with required purchasing also caused only a few problems because these were very small amounts of drugstore or drugstore-related products, which the franchisees expected would be sold anyway. In addition, some of them pointed out that if they really did not agree with the products, they could send them back. The satisfied druggists had more problems with the increased brochures because for them the investment in the promotional products was a relatively large amount due to their small floor area and turnover levels, and for them it took a longer time to sell the products because they had fewer customers. Management⁸ also anticipated that some of these drugstores could not meet the increased requirements in the future and would exit UED.

The requirements with respect to the store exterior caused some more problems because this required more investment from the franchisees. Some argued that it did not matter what their store exterior looked like at their locations because of weak competitive circumstances at their location. At the time of the interviews, these franchisees had not yet discussed this with the management, but they expected that they would come to an agreement on that. On the other hand, a manager pointed out that he did not want to

compromise anymore, but he expected that disagreements could be worked out after consultation with these franchisees.

The entry of DA and STIP franchisees into the UED system in 2003 and 2004 influenced the franchisees' desired degree of hardness of the UED system. The CEO formulated this as follows: *'The people from DA that enter the UED system influence the existing UED druggists. Suddenly, there is a new type of druggist in the UED system. This druggist is used to something other than what people that have been with UED for a long time are used to. Furthermore, often the people that are at UED have often been with DA in the past and now there are some new druggists from DA entering. But these are different druggists from the ones that left the DA system several years ago. One of the reasons that druggists left the DA system years ago was the large amount of brochures. And now there are some new druggists entering who want to send out brochures. Those people understand that it is good to cooperate together. When you talk about hardening, you see that this is easier with these new UED druggists than with our 'classic' UED druggists. The new group of former DA druggists come from another culture; they are partly attracted by our culture, but on the other hand they want something more from a system. They want more brochures, more insight into financial issues. To us, that is a completely different dimension.'*

What actually happened

Management⁸ wanted the new contracts to be signed by January 2004. The contracts were sent to all UED franchisees in November 2003 and were accompanied by a letter that stated that the account manager would come and pick up the signed contract at his next visit. However, management was very busy attracting and contracting new UED franchisees who came from DA or STIP (in a reaction to SCT2 and SCT4), and it took longer than expected to sign the contracts with existing UED franchisees. At the beginning of 2004, several franchisees pointed out that they had not yet signed the contract because the account manager had not visited them yet. The druggists who disagreed expected that they could work out their disagreements when the account manager visited them.

In sum, before the start of 'Some Hardening', the franchisor had imposed very few requirements, and the majority of franchisees agreed with this. After 2003, management desired a higher degree of hardness, and they initially wanted the UED system to be changed by January 2004. One section of the franchisees were hesitant about the increasing degree of hardness, and another part wanted the system to be more active and supported the increasing degree of hardness.

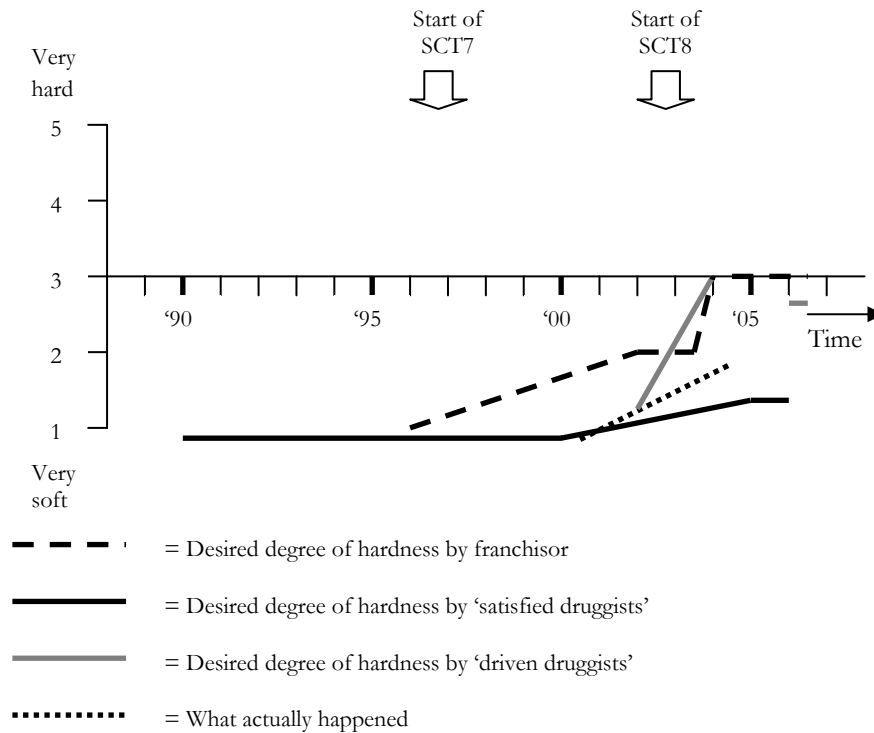


Fig. 8.4 Timeline for degree of hardness

8.2.5 Strategic compatibility regarding rate of innovation during SCT7

What the franchisor and franchisees wanted, and what actually happened

During the Prospective Acquisition, the UED system's rate of innovation was not an issue. The rate of innovation had always been low. Management thought that the UED stores were not the type of stores that needed to have a high rate of innovation in terms of new products and other business format adaptations. They considered this more important for stores in larger city centers and not for stores located in villages, such as UED stores. Most UED franchisees agreed with this because they thought that introducing new products and other business format adaptations at a high rate involved a risk: if these modifications were not successful it would cost them money. New products from the best-known and influential brands, such as L'Oréal, formed an exception to this. The franchisees thought they at least needed to have the newest products of these brands because customers expect to find these in all drugstores after seeing television advertisements. Sometimes, Brocacef could not offer these new products to the franchisees because the UED system was only a small system that was not powerful in the drugstore market. In the early stages of new product introduction the suppliers of the well-known brands preferred negotiating with the large drugstore systems, such as Kruidvat, DA and ETOS because these franchise systems guaranteed widespread introduction.

8.2.6 Strategic compatibility regarding rate of innovation during SCT8

What the franchisor wanted

As pointed out, the rate of innovation of the UED system had always been low, and this had never been a problem, except in some cases where Brocacef could not supply certain new products from the well-known suppliers. During Some Hardening, management8 aimed at a higher rate of innovation at least in UED's health assortment; it aimed for a relatively rapid introduction of new products and product groups in the UED system.

According to management8, it became more important to think about adaptations to the UED system on a more general level due to changes in the drugstore industry. Management8 expected that legislation would make it possible for other parties besides drugstores to sell non-prescription drugs, and it expected that drugstores would lose their relatively protected position in the market, and that the UED system needed to adapt to survive.

One important development in the drugstore industry was the possibility of self-service in medicines. In 2002, the law was changed and stated that stores were allowed to introduce customer self-service for medicines. Management8 thought it would be beneficial to introduce the self-service in the stores, but it did not want to make it obligatory because they knew that several UED druggists (mainly the satisfied) had problems with it because they wanted to give advice. Another step for Brocacef was the development of stores in which pharmacist and drugstore activities were combined (combination stores). At the time of writing this chapter (August 2004) these developments were at an early stage, and it was not yet clear exactly how these would be related to the UED system's activities.

What franchisees wanted

According to the franchisees, the rate of innovation on the level of new products was low at UED. As mentioned earlier, some franchisees were bothered by the fact that they sometimes could not obtain the newest products from the most influential brands via Brocacef. However, in cases where these products could not be obtained from Brocacef, the druggists could contact the supplier's salesmen directly and order the products via them.

As for the higher levels of innovation, the franchisees did not want a high rate of innovation because this would require investments that were considered risky given the franchisees' relatively low and stable turnover levels. Due to their relatively low turnover levels it would take a long time to recoup certain investments. Moreover, because most franchisees considered their turnover levels to be stable, they did not expect that greater investment would lead to higher turnovers and higher profits. Here there was also a difference between the 'satisfied' and the 'driven druggists' because the driven druggists considered these higher levels of innovation as more important (although within certain boundaries).

With respect to medicine self-service, several UED franchisees had problems with this and did not want it in their stores. Since this was not made obligatory by Brocacef, this difference in the desired rate of innovation did not really pose problems, but management tried to convince the franchisees of the benefits of self-service because it thought it was necessary given future developments in the drugstore sector.

According to the CEO, the entry of former DA franchisees, who were mainly the 'driven druggists' in the UED system, increased the UED franchisees' desired rate of innovation.

According to him, the former DA franchisees were more open to new ideas and more used to adopting certain innovations.

What actually happened

Over the years, the UED system had had a low rate of innovation because both partners thought it was not very important for the UED stores. However, during Some Hardening, management⁸ tried to increase UED’s rate of innovation. The ‘driven druggists’ also wanted this higher rate of innovation, while the ‘satisfied druggists’ were more conservative in this.

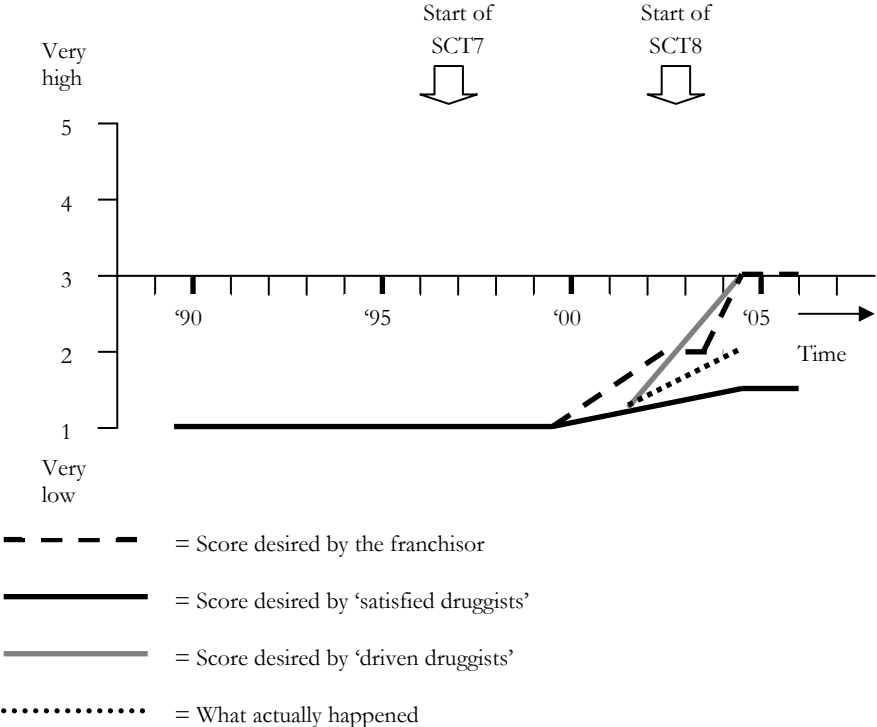


Fig. 8.5: Timeline for rate of innovation

8.2.7 Strategic compatibility regarding organization of franchisees’ strategic participation during SCT7

What franchisor and franchisees wanted, and what actually happened

At the ‘formal’ start of the UED system in 1996, strategic participation by UED franchisees became somewhat formalized with the start of a Franchise Board and an Assortment Committee. The Franchise Board consisted of a group of UED franchisees who met about strategic issues concerning UED. The Assortment Committee was set up to

meet to deal with the UED assortment and the brochures⁷². Brocacef divided the Netherlands into five regions, and every region had one representative on the Franchise Board and one on the Assortment Committee.

The contract that was introduced at UED's formal start only referred to the presence of a Franchise Board that had voting power. There were no further procedures specified concerning the Franchise Board, such as a specification of topics on which it had voting power, or the procedures for voting. In other words, the organization of strategic participation by UED franchisees was still very loose and its practical workings depended highly on the people who were involved.

During the Prospective Acquisition, there were no changes in UED's organization of strategic participation, and both franchise partners agreed on the level of organization of strategic participation.

8.2.8 Strategic compatibility regarding organization of franchisees' strategic participation during SCT8

What the franchisor wanted

During Some Hardening, management⁸ established the procedures for the Franchise Board more clearly in Franchise Board Regulations (called 'Huishoudelijk Reglement'), thereby increasing the organization of strategic participation. The regulations contained procedures for the election of members for the Franchise Board, procedures for resigning, and topics on which the Franchise Board had the right to give advice and to make proposals.

The topics on which the Franchise Board had voting power were still not specified in the Regulations. The CEO formulated this as follows: *'It never comes to voting, let that be made clear. It always comes about through thorough consultation. I think I've witnessed voting just once. The aim is consensus. You're working with independent druggists, and they're no fools. They have a lot of responsibilities, and that's how we sit around the table. Of course, people know the power difference between Brocacef and the Franchise Board members... But you still have to work it out together.'*

One manager argued that with the introduction of the Franchise Board Regulations nothing really changed about the role of the Franchise Board in decision-making. They continued working the way they always had, except that now things were formalized. According to this manager, this formalization was important because it created a more solid base and support among the large group of franchisees for future changes in the UED system.

What franchisees wanted

Most franchisees were satisfied with the degree of strategic participation in the UED system. Or, more precisely, several franchisees did not really care about strategic participation. Several members of the Franchise Board pointed out that they heard very little from the franchisees in their region. As one member of the Franchise Board pointed out: *'I sense that there are very few druggists at UED who care, but that would probably also be the case*

⁷² This chapter mainly focuses on the Franchise Board because they were involved in strategic decisions, and the Franchise Board was 'institutionalized' in the contract and regulations while the Assortment Committee was not. However, in very important decision-making processes (such as 'Some Hardening'), the members of the Assortment Committee were also involved in the process and they had voting power.

in other organizations. But druggists never call me to say that they don't agree with certain decisions. You hear little, maybe only sometimes at a regional meeting. I think that a lot of druggists don't care.'

Management8 pointed out that it was difficult to find franchisees who wanted to become members of the Franchise Board, and the attendance at regional meetings was generally low. There are two explanations for why the UED franchisees did not care about the organization of strategic participation. First, they had to deal with only a few requirements and therefore they did not often consider that there were any problems with respect to these requirements or with Brocacef in general. Second, several franchisees pointed out that they did not consider the Franchise Board important because they perceived that the management listened to them in case of problems. Because management8 could be contacted so easily, the franchisees did not think about contacting a member of the Franchise Board. Several UED franchisees argued that the management was very approachable, and that they had phone numbers and e-mail addresses of the management, which made the management easy to contact.

During Some Hardening, the Franchise Board consisted of both driven and satisfied druggists. According to a manager, the driven druggists were members of the Franchise Board in order to 'speed things up', while the satisfied druggists were in the Franchise Board with the goal to 'slow things down'. In recent years, management had tried on purpose to involve more driven druggists in the Franchise Board, which specifically included former DA franchisees, and they wanted to attract even more former DA franchisees to the Franchise Board in the future⁷³. The CEO formulated this as follows: *'We want to involve them. We have druggists in the Franchise Board that have only recently come to our organization. We've approached them ourselves to become part of the Franchise Board because these people think differently, resulting in active discussions on the Franchise Board.'*

According to former DA franchisees, participation in the UED Franchise Board was different from participation in the DA Board of Participants. One former DA franchisee who had exited the DA system in 2000 compared the meetings of DA and UED as follows: *'And it's funny to see how a UED meeting is built up, and who is present. The CEO is present, the chief of format management, the chief of promotions, the chief of purchasing, two category managers, regional managers, and there are UED druggists. And that is the good thing about an organization such as Brocacef: if you have some issues for discussion the responsible manager is present at the meeting. In contrast with DA, where, when you said something there, they weren't listening.'*

What actually happened

The strategic participation of UED franchisees became somewhat more organized by means of the 'Franchise Board Regulations', but its practical workability still depended on the people involved. Even though the members of the Franchise Boards had voting power, in practice this rarely happened and decisions were made in consultation.

⁷³ Although new members of the Franchise Board needed to have been a UED druggist for at least one year.

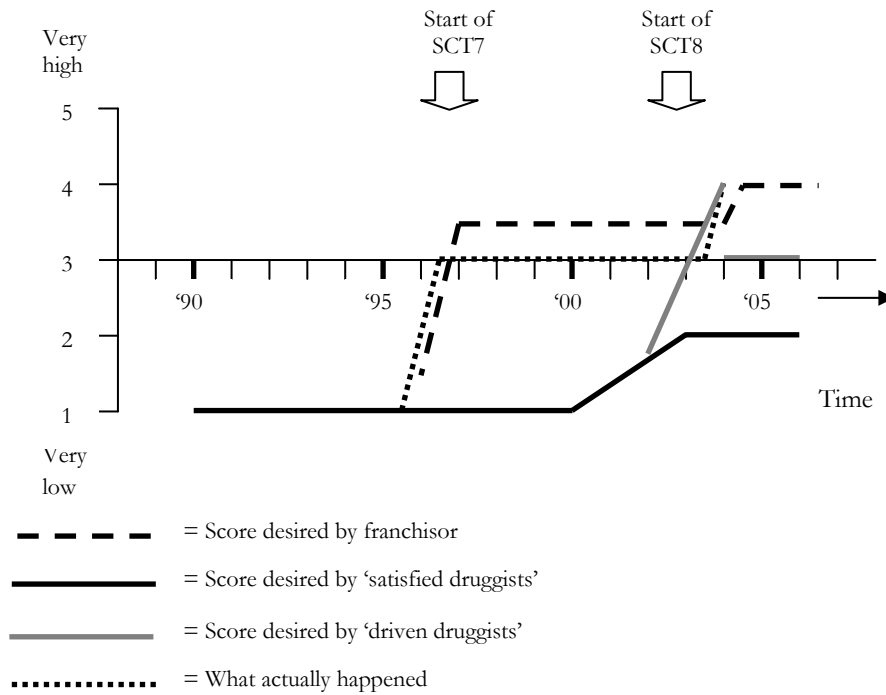


Fig. 8.6 Timeline for the organization of franchisees' strategic participation

8.2.9 Strategic compatibility regarding type of growth objectives during SCT7

What the franchisor and franchisees wanted, and what actually happened

In the early years of UED, management focused more on quantitative growth than on qualitative growth. In the years before the Prospective Acquisition, the UED system had grown very quickly to about 180 UED stores. At the time, management did not have any criteria for accepting franchisees for the UED system, such as turnover levels or minimum floor areas. In other words, it mainly had quantitative growth objectives instead of qualitative. As a result, the average floor area and turnover level per UED store was low. However, from the mid-1990s, several franchisees left UED because they could not or did not want to go along with slightly increasing requirements and costs. The Prospective Acquisition accelerated this process because it made these franchisees with smaller stores afraid of what would happen if they became part of the DA system with even more brochures and other requirements and higher cost levels. In reaction to this, about 50 franchisees left the UED system, and for several years the number of UED stores remained at around 130.

Most UED franchisees were satisfied with the way things were and they did not consider the need for renovating or relocating. Several UED franchisees were women whose husbands had other jobs, which meant that the UED store was not their only source of income.

8.2.10 Strategic compatibility regarding type of growth objectives during SCT8

What the franchisor wanted

During SCT8, management's growth objectives became more qualitative. Management thought that qualitative growth was needed for the stores to meet the increasing requirements of the UED system. It wanted to convince smaller UED franchisees to invest in their stores by renovating or by relocating to increase floor area and turnover levels. At the same time, management did not want to make compromises anymore, and it argued that franchisees who did not want to adopt the proposed changes had to leave the UED system. Fortunately for Brocacef, the franchisees who left UED often still purchased their drugstore products at Brocacef. In other words, exit from the UED system did not always mean exit from the relationship. For druggists who wanted to enter UED, management decided to adopt certain selection criteria in terms of floor area, and the minimum floor area became 140 m².

In addition to qualitative growth, according to the management, quantitative growth was still needed in order to build brand awareness and to benefit from certain scale effects because there would be certain limits to qualitative growth. In quantitative terms, management aimed for at least 200 UED drugstores, which would fit the new qualitative criteria.

What franchisees wanted

The driven druggists were more concerned with growth, and were willing to invest in their stores to increase floor area or to relocate. The satisfied druggists were content with the way things were, and they often did not have any growth objectives, and they were less willing to renovate or to relocate. However, this had not yet caused huge problems because management had not yet actually enforced these requirements. The motive for relocating or renovating or not was related to whether the UED franchisees expected that the costs of a renovation or relocation would result in higher profitability.

What actually happened

There were no problems due to incompatibility with growth objectives with the existing UED franchisees, but this was mainly because management had not yet actually enforced these requirements. In the years 2003/2004, the UED system attracted about 35 former DA franchisees, who were more focused on qualitative growth. On the other hand, around the same period UED lost about 30 of its smallest druggists who could not or did not want to adopt slightly increasing requirements and costs. Due to these changes the average floor area per store increased in this period.

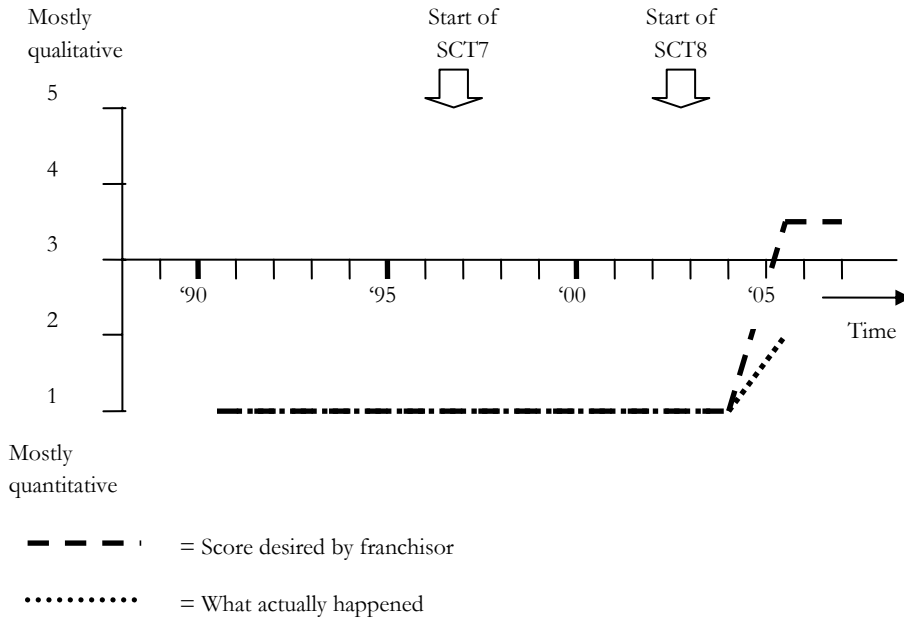


Fig. 8.7 Timeline for type of growth objectives

8.3 Operational compatibility

8.3.1 Operational compatibility during SCT7: 'Prospective Acquisition'

The franchisees' perspective

The franchisees' perceptions of operational compatibility regarding capabilities (OC capa) had generally been high. In the eyes of the franchisees, Brocacef was a good wholesale organization with attractive purchasing prices, on-time delivery, and they offered a good automation system. Additionally, the relationships between Brocacef and the franchisees were good, and often the druggists used the terms 'friendly' to typify the relationship. Several franchisees described the style of Brocacef in terms such as 'enjoyable, human, friendly, open, accessible'. They often pointed out that compared to DA the management of Brocacef was very approachable: their phone numbers were available, while DA franchisees did not have the phone numbers of the Dynadro management. This resulted in a high perception of trust in the franchisor; franchisees trusted that management would not act opportunistically and would take the franchisees' interests into account. At the time of the 'Prospective Acquisition' there was no distrust in the management itself; franchisees believed that management7 had good intentions. The prospective acquisition was initiated by Brocacef Holding, and management7 could do little about that.

During the Prospective Acquisition, several UED franchisees were not only afraid of becoming part of the harder DA system, but also of the 'style' of Dynadro, which was considered to be less friendly and more authoritarian, and therefore resulted in a lower degree of trust. One former DA franchisee pointed out this difference in atmosphere and

style as follows: *'The difference between Dynadro and Brocacef is that at DA the people are quarrelsome, if I may call it that. And the people at Brocacef are very friendly and sweet people. It does not matter whether you call a secretary or the CEO, they will never ask "why are you calling me?" ... UED is one big family. It is always enjoyable there (at the regional meetings, EC).'*

Moreover, the franchisees expected that under the DA their cost level would rise, which would result in a lower operational compatibility regarding profitability (OC profit).

The franchisor's perspective

For management, the most important aspect of operational compatibility at the time was whether the franchisees could fulfill their financial obligations (OC capa). Some franchisees had only a low profitability for the franchisor, but this did not matter at all as long as the franchisee could fulfill his financial obligations. Trust and fair/dealing (OC trust/fd) were not really issues for the management because they did not impose many requirements on the UED franchisees.

8.3.2 Operational compatibility during SCT8: 'Some Hardening'

The franchisee's perspective

OC capa in the eyes of the UED franchisees had always been high, except for some problems about support and logistics. For several years, the organization had had problems with employees being ill, and they had too few employees to visit all the franchisees regularly. These problems were eventually solved, but with the entry of several new franchisees into the UED system, the frequency of visits to existing franchisees again decreased. Therefore, several UED franchisees were not satisfied with the general support by Brocacef. With respect to logistics there had been problems for some period of time because Brocacef had switched to another delivery company. However, franchisees expected that these problems would be solved in a relatively short period of time and they did not expect such issues to be any better at other organizations.

With respect to OC profit, several franchisees mostly looked at the costs of participation in the UED system (OC profit/cost). They focused more on costs because they did not expect to be able to increase their turnover through more investment. This also relates to whether franchisees felt the need to have a well-known brand name. Due to their competitive circumstances several of them did not expect that a well-known brand name would attract more customers, and therefore they were not willing to invest in that. Several UED franchisees also thought that the effects of the UED brochures on their turnover levels were difficult to measure.

In general, franchisees considered few problems with OC trust/fd and they considered Brocacef to be a friendly organization. However, there has been one incident that made a big impression on the UED franchisees, and that is related to trust. In 2002, one former manager of Brocacef left the organization and went to Brocacef's largest competitor: Dynadro. Several UED franchisees felt betrayed because they had opened up to this manager; they had fielded their questions and discussed problems with him and had given him insight into their stores' turnover levels. With the manager's switch to Dynadro, these franchisees were afraid that Dynadro would use this information against them. This has made several UED franchisees decide that they did not want to give information concerning their stores' turnover levels to anyone anymore, while management⁸ wanted to have this information for a better management of the UED system.

The UED franchisees still valued the friendly style of the management. It is interesting that several franchisees made an explicit distinction between their satisfaction with the

UED system as such and their relationship with Brocacef as such. The franchisees were all very satisfied with the relationship with Brocacef because of Brocacef's friendly style, but some franchisees who wanted the UED system to be more powerful were not satisfied with the UED system.

The franchisor's perspective

From the franchisor's perspective, the most important aspect of operational compatibility was still whether a franchisee could meet his financial obligations (OC capa). However, during SCT8, OC profit became more determinant. Because management wanted an increasing hardness, they wanted franchisees to adopt certain requirements. However, because the franchisor wanted a higher level of hardness, he sometimes had to choose between imposing and enforcing requirements and letting go of a profitable franchisee who did not want to adopt these requirements. In other words, a tension arose between SC hard and OC profit with specific franchisees.

8.4 Attractiveness of alternatives

8.4.1 Alternatives during SCT7: 'Prospective Acquisition'

The franchisee's perspective

During the Prospective Acquisition, the most popular alternative for the franchisees who exited the UED system was continuing without being part of a franchise system or becoming part of another soft drugstore system of which ABC and DIO (by Faco Diensten BV) were the most popular. These franchisees thought they did not need a well-known brand and therefore chose a softer system or became a CID. Some other franchisees had spoken to franchisors of softer drugstore systems but had decided to wait and see what would actually happen.

ETOS was not considered an alternative because according to these franchisees this would result in the same or an even higher degree of hardness and cost levels associated with it than would be the case if the UED system were to be acquired by DA.

The franchisor's perspective

During the Prospective Acquisition, management⁷ did not make choices with respect to specific franchisees because it was busy with the other issues involved in the acquisition. Management often chose to let go of certain franchisees and therefore to lose certain locations. These franchisees were often so small that they could barely fulfill their financial obligations toward the franchisor.

8.4.2 Alternatives during SCT8: 'Some Hardening'

The franchisees' perspective

For most smaller UED franchisees continuing as a CID with Brocacef as their wholesaler was the most attractive alternative during SCT8. The franchisees had weighed their need for a well-known brand name against the higher investments and costs associated with this. Most franchisees did not consider a well-known brand to be very important and therefore did not choose for ETOS or DA, the relatively harder franchise systems. However, the softer drugstore systems were also not considered to be attractive alternatives because they were smaller and less powerful than the UED system. These franchisees mainly looked at

the brochures, and whether they expected they could attract more customers and increase their profitability with these brochures. Several franchisees expected that the sending out of brochures would cost more than it would yield and therefore decided to continue as a CID. In this case they exited the UED system, but they stayed in the relationship with Brocacef because Brocacef would remain their wholesaler. They stayed because of the good relationship with Brocacef and they considered it a good wholesaling organization with attractive purchasing prices that were comparable to other drugstore wholesalers.

For some franchisees the REZO group, which had been started recently, was an attractive alternative because this group solely focused on sending out brochures with some joint purchasing.

The franchisor's perspective

From the franchisor's perspective, two possible alternatives for a specific franchisee were another franchisee for the location of the UED store or losing the location. However, in most cases the franchisee was the owner of the building, and so the franchisee could just continue in his own building with another drugstore system and another drugstore wholesaler. In these cases, the franchisor would lose this UED location. However, as pointed out, several druggists stayed at Brocacef as a wholesaler, which made losing a location an acceptable option for Brocacef because Brocacef would not lose the wholesale customer.

8.5 Switching costs

8.5.1 Switching costs during SCT7: 'Prospective Acquisition'

The franchisee's perspective

For the UED franchisees switching costs at the time of the Prospective Acquisition were generally very low. Due to the softness of UED, franchisees had made few specific investments and the duration of the relationship was only one year. For some franchisees their UED store was not even the only source of income because their husband or wife was not involved in the store but had another career. Therefore these franchisees were not as dependent on the UED store's income as other franchisees. Moreover, these franchisees owned their own locations, so in case of exit they would not have to leave their location.

The franchisor's perspective

For the franchisor switching costs were generally low because those UED franchisees who left generally had smaller stores that did not comprise a large part of Brocacef's income.

8.5.2 Switching costs during SCT8: 'Some Hardening'

The franchisee's perspective

During 'Some Hardening', switching costs for UED franchisees were still low due to the low specific investments and the short duration of the old contract. Several UED franchisees mentioned that their investment in an automation system would result in switching costs if they were to switch to another drugstore system or another wholesaler. However, most of these franchisees considered becoming a CID with Brocacef as their wholesaler as the most attractive alternative, as if they stayed at Brocacef they could keep

their automation system, resulting in low switching costs. So, the possibility of remaining with Brocacef as a wholesaler reduced the franchisees' switching costs.

As was pointed out, several UED franchisees were not completely dependent on UED for their income because their husband or wife had another career.

However, the UED franchisees took into account that when they signed the new contract, they would be increasing their switching costs in the future ('future switching costs') and this would make it more difficult to exit in the future. For some UED franchisees who did not believe in the benefits of the changes during Some Hardening this was a reason to exit the UED system and to continue as a CID with Brocacef as their wholesaler.

The franchisor's perspective

For the franchisor, switching costs were also low because it had not made specific investments in franchisees. Additionally, because several UED franchisees stayed with Brocacef as their wholesaler, the tension between losing wholesaler customers versus maintaining uniformity did not play a role for Brocacef.

8.6 Responses of the partners

8.6.1 Responses during SCT7: 'Prospective Acquisition'

Responses of the franchisees

For management it was difficult to give a more exact estimate of percentages of the UED franchisees' responses during the Prospective acquisition, so Fig. 8.8 only presents the researchers' estimates. These percentages are the following: covo= 0%, loy=15%, amloy=55%, negl=0%, agvo=0% and exit=30%⁷⁴.

According to management, the general picture was as follows. Several UED franchisees were anxious because of the Prospective acquisition. These mostly were the franchisees who had switched from DA to UED in the mid-1990s. As pointed out, during the 1990s, Brocacef's management had very slightly introduced more brochures for UED, which slightly increased the costs of participating in the UED system, and several smaller UED franchisees had left the system because for them the costs of participating had become too high. The 'Prospective Acquisition' speeded up this process: the idea of becoming part of the DA system with even more requirements and higher costs had made several druggists exit the UED system. In combination with the loss of smaller UED stores who were too small to survive, about 50 druggists left the UED system, causing a drop from 180 druggists in around 1997 to about 130 druggists in 1999/2000.

In contrast to those franchisees who adopted exit, the rest of the group adopted a more passive response. Because it was uncertain what was going to happen, the majority of druggists just remained passive. Their response can be characterized as 'ambiguous loyalty' (amloy) because they were just waiting for what would happen and would then decide how to respond. My estimate is that the majority of UED franchisees at the time adopted amloy. There were some franchisees who adopted loy because they agreed with the acquisition by Dynadro because the DA system was a powerful player in the market from which they could benefit. Other franchisees did see the benefits of an acquisition or cooperation in

⁷⁴ Almost half of the 30% of exits exited because they could not or did not want to fulfill the financial obligations of their UED membership anymore.

general, and instead wanted Brocacef to cooperate or be acquired by another party than Dynadro. Several franchisees hoped for Faco Diensten BV, which was a franchisor for two relatively soft drugstore systems (DIO and ABC).

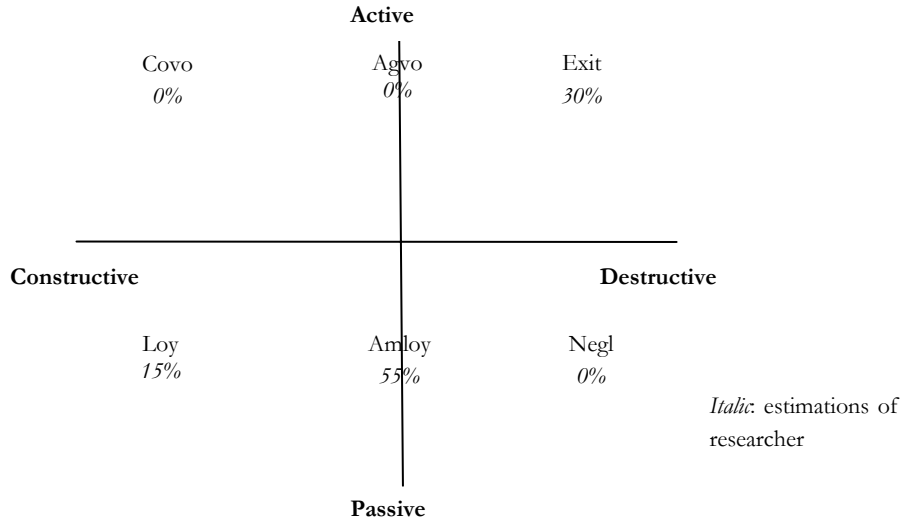


Fig. 8.8 Estimations of responses of the UED franchisees for SCT7

Responses of the franchisor

Management had not really adopted specific responses toward the franchisees because it was settling other issues with the acquisition partner. Before the acquisition partners had been able to work out concrete plans for the druggists, the NMA had interfered, and the acquisition had to be called off.

8.6.2 Responses during SCT8: ‘Some Hardening’

Responses of franchisees

For the UED franchisees’ responses during Some Hardening, one manager gave the following estimate: covo=20%, loy= 60%, negl=10%, agvo=1% and exit=10%. The researcher’s estimates are: covo=20%, loy= 40%, amloy=20%, negl=10%, agvo=1% and exit=10% (see Fig. 8.9).

The estimates of active responses are more or less similar, but there is a difference between the estimates of passive responses. An explanation for this is that it is more difficult to estimate passive responses because these are less visible to management than to the researcher.

The franchisees who adopted exit were the UED franchisees with smaller stores, who often were also the ‘satisfied druggists’. The increasing degree of hardness meant that the costs of participating would become slightly higher, and they thought that these increasing costs would not translate into higher profits, or would even result in lower profits. These were also the motivations for the minority of UED franchisees who had operated under Module 1, which was going to be dissolved. Module 1 had fewer brochures and lower

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participating costs, and with its dissolution, the druggists were compelled to take on more brochures, resulting in higher participating costs.

The majority of UED franchisees adopted a passive response in a reaction to Some hardening. These franchisees waited for their account manager to pick up the signed contracts, and several of them expected that they could make special arrangements with their account manager. These franchisees expected to have some room for negotiation, for example with respect to their store exteriors. Some did not like the colors of the new store exterior and expected that management would cut them some slack so they could keep their old store exteriors.

Originally, management8 wanted the contracts with the existing UED franchisees to be signed by November 1, 2003, but that did not work out because they were too busy attracting and contracting with the new UED franchisees.

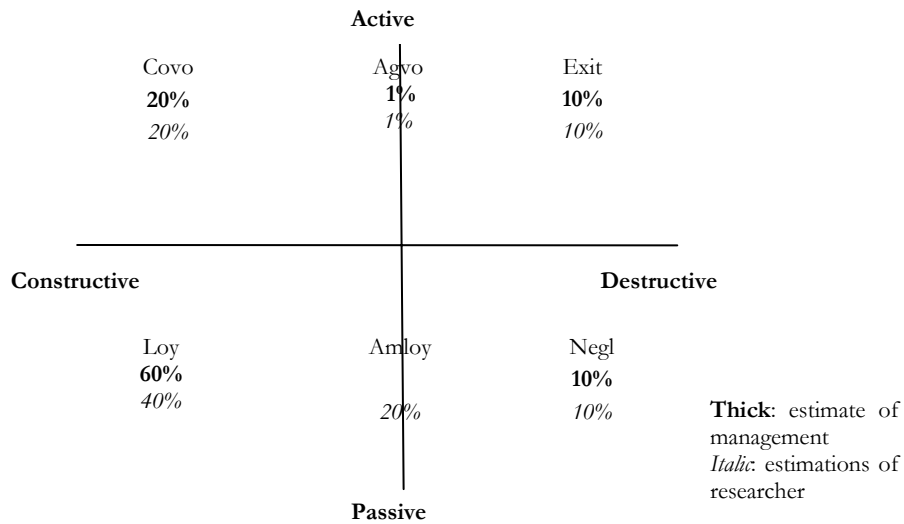


Fig. 8.9 Estimations of responses of the UED franchisees for SCT8

Responses of franchisor

During Some Hardening, management8 was busy contracting with the new UED franchisees, which resulted in loy from management toward the existing UED franchisees; management paid attention first to the new franchisees and expected that things would work out with their existing franchisees. However, management8 saw exit as a viable response for dealing with druggists who did not want to change. In earlier years, management had never adopted exit of their own accord, and had made many compromises with franchisees just to keep them in the UED system. Management became aware that it could also use the exit response if a franchisee did not want to adopt the requirements. Management said it did not want to compromise anymore because this would block its desire for uniformity in the UED system.

8.7 Analysis of relationships between variables

Sections 8.2 to 8.6 have described the developments during SCT7 and SCT8, and the franchise partners' perceptions of the independent variables (conclusions of type 1). The following section takes a closer look at the individual franchise relationships by analyzing relations between the independent variables and the responses (conclusions of type 2). For both SCT1 and SCT2, the development in franchisees' responses is presented in a figure (Figs. 8.10 and 8.11). In these figures each number represents an individual franchisee. Each response type ('X response' for example) is discussed according to the following structure:

- Preceding responses to the X response (broken lines in Figs. 8.10 and 8.11).
- The X response as initial response (bold numbers in Figs. 8.10 and 8.11). 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. 8.10 and 8.11).

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

A limitation of Figs. 8.10 and 8.11 is that they do not indicate the time lapses between the switches from one response to another; in fact, these varied from a few weeks or months to several years. For a better understanding of the development of responses, these time lapses will be pointed out in the text.

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 8.8 in which the general conclusions for the UED system are discussed

8.7.1 Analysis for SCT7: 'Prospective Acquisition'

Table 8.1 presents a summary of the data for SCT7. For each franchisee response type, the number of respondents (franchisees), the modus of these franchisees' perceptions on the independent variables, and the responses of the franchisor are presented. The sample consisted of two loy franchisees, six amloy franchisees and one exit franchisee. The Table shows that none of the respondents adopted covo, negl or agvo directly after the introduction of SCT7. During SCT7, there were very few franchisees who adopted these responses. This can be explained by the fact that at the time, the franchisees only knew that Brocacef was in negotiation with Dynadro, and it was not known if and when the acquisition would take place. Section 8.6 already pointed out that most franchisees adopted amloy in a reaction to SCT7.

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=0	-	-	-	-	-	-	-	-	-	-	-	-
Loy N=2	High/ very high (-)	Med (+)	Very high	Med (+)	NP	Med	High	Med	Low	Very low	Loy	
Amloy N=6	Med (+)	Low (-)	Med (-)	-	NP	-	Low	Low	High	Very low	Loy	
Negl N=0	-	-	-	-	-	-	-	-	-	-	-	
Agvo N=0	-	-	-	-	-	-	-	-	-	-	-	
Ex N=1	Low (+)	Low (-)	Med (+)	Low (+)	NP	Med	Low (+)	Med	High	Very low	Negl	

Table 8.1 Summary of data for SCT7

Figure 8.10 presents the developments in the franchisees' responses to SCT7.

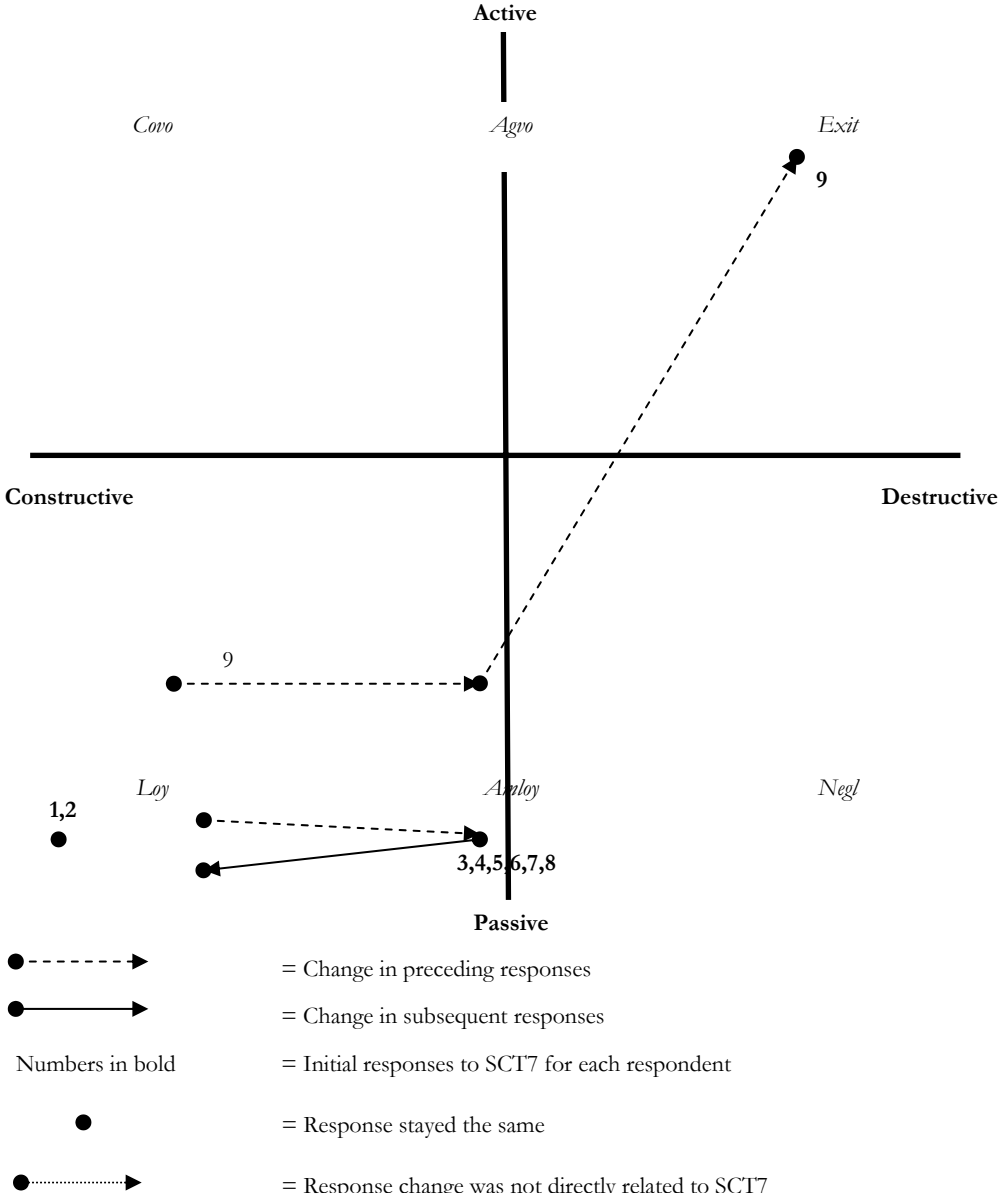


Fig. 8.10: Development of franchisees' responses to SCT7

Preceding responses to loy
 Franchisees 1 and 2 adopted loy as initial response. They had always adopted loy since their membership of the UED system. Franchisee 1 had entered UED at the time of the Prospective Acquisition. He had initially contacted DA to become part of the DA system,

but DA's management had rejected him because his store was considered too small for DA. As a result, franchisee 1 entered UED instead.

Franchisee 2 had been a franchisee of the DA system, but had exited the DA system after a conflict and had switched to the UED system.

Loy as initial response

Franchisees 1 and 2's loy during Prospective Acquisition can be explained by their determining variables and what they expected their scores on these determining variables to be in the future. The determining variables were, in order of importance:

- OC profit. This was related to the degree of hardness; the franchisees expected that a higher degree of hardness (and uniformity) could result in higher profits. However, there was a certain threshold to this: because an increasing degree of hardness would require more investments and therefore a higher cost level, the franchisees perceived a certain threshold on their desired degree of hardness. In other words, there was a tension between the desired degree of hardness and the cost level.
- SC hard. These franchisees wanted a better known brand because they thought the UED system was not powerful enough. They expected that a better known brand would improve their profitability (see OC profit). With the DA system these franchisees expected a higher degree of hardness and therefore a higher SC hard in the future.
- SC pos. According to these franchisees the positioning of DA resembled the positioning of UED; both focused on the higher end of the market. However, the franchisee who had experience with DA did not want that many non-drugstore-related products anymore, but he expected that things would become better due to an increase in scale after the Prospective Acquisition (because with more stores they could be more powerful).
- SC innov. The benefits of greater scale also applied to the level of new products as part of the rate of innovation. However, at the other levels of innovation (product groups, other business format adaptations and the business format as a whole) a high rate of innovation was not desired, and this was also not desired by management.
- OC trust/fd. This would become more important due to the increasing requirements. The franchisees did not expect problems with trust or fair dealing because they had not had bad experiences with DA or heard rumors (in contrast with the amloy franchisees).

The franchisees had not considered OC capa, SC org and SC growth because those would be later issues once they knew the acquisition would actually be taking place. For these franchisees the attractiveness of alternatives was not determinant because they agreed with the acquisition, and therefore they did not feel the need to evaluate their alternatives. The same applied for switching costs.

The franchisor's response to these franchisees was a passive one because management was busy with the general issues of the acquisition. For the franchisor the only important thing at the time was that franchisees would be able to fulfill their financial obligations (OC capa).

Subsequent responses to loy

When the 'Prospective Acquisition' was cancelled, these franchisees stayed in the loy response. It seems that the low attractiveness of alternatives did play a role here; they considered ETOS as too hard and other systems, such as DIO or ABC, as too soft and even less powerful than UED, and therefore they stayed at UED.

Preceding responses to amloy

Franchisees 3 to 8 initially adopted amloy to the Prospective Acquisition. Some of them had initially contacted DA to become a DA franchisee, but had not started with DA because they perceived too many requirements and cost levels as too high, and some had heard negative stories about DA. Therefore they had decided to contact Brocacef, and the reasons for this varied between the franchisees. Some had worked at pharmacies and knew Brocacef from there, while other franchisees were regularly visited by a sales person from Brocacef, which made Brocacef a logical choice for them.

When these franchisees entered the UED system they adopted loy, but when the Prospective Acquisition with DA was introduced, they switched to amloy.

Amloy as initial response

Franchisees 3 to 8 just waited to see what would happen before they decided what further responses to adopt. They did not want to become part of DA, and they argued that they would have exited if the acquisition had actually taken place (at least they said so). For these franchisees the determining variables were, in order of importance:

- OC profit/cost and SC hard. These variables were related to each other in the eyes of the franchisees. They were afraid that the degree of hardness would increase and that this would result in higher cost levels for them, when, at the same time, they considered their turnover levels to be stable. Therefore, more investment would not result in higher profitability or even in lower profitability.
- SC pos. They expected SC pos to be low due to the brochures and non-drugstore-related goods attached to them.
- SC innov. They expected SC innov to decrease because the DA had a higher rate of innovation, and they considered this as not necessary for their stores.
- OC trust/fd. These franchisees expected that their future OC trust/fd would become low due to their earlier contacts with DA and the stories they had heard from others.

SC org, SC growth and OC capa were not mentioned by these franchisees as important considerations for them during the Prospective Acquisition. It is possible that SC org would only have become important after the actual degree of hardness became clear. OC capa was not considered as determinant because these franchisees thought these aspects would not be different at other franchisors/wholesalers.

The attractiveness of alternatives and switching costs did not play a role (yet) because the franchisees were just waiting to see what would happen, and only then would they decide how to respond. One franchisee had already contacted a franchisor of another soft drugstore system, but he decided to wait and see what would actually happen before taking further steps.

The franchisor's response to these franchisees was a passive one because management was busy with the general issues of the acquisition. For the management the only important thing at the time was that franchisees would be able to fulfill their financial obligations.

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Subsequent responses to amloy

After the Prospective Acquisition was cancelled these franchisees turned back to loy. The franchisee who had contacted another franchisor also returned to loy because he thought that with UED he knew what he had, while the other system would produce new uncertainties.

Preceding responses to exit

Franchisee 9 adopted exit almost directly after the introduction of SCT7. This franchisee had made several switches between franchise systems in the past. He had initially started at DA, but had switched to another soft drugstore system as a reaction to the introduction of SCT1. From this other drugstore system, he had switched to UED relatively quickly because he wanted an automation system, and Brocacef could offer that at that time. When the druggist heard about the 'Prospective Acquisition' by DA, he reacted by deciding to exit UED (and Brocacef) and to become a CID with another drugstore wholesaler as supplier.

Exit as initial response

For franchisee 9 the determining variables were the following:

- SC hard. The franchisee had left DA due to the increasing degree of hardness during SCT1 and he was afraid that the degree of hardness would increase rapidly after the acquisition, resulting in a low SC hard. The franchisee did not want this hardness because this required greater investment. Moreover, another important reason was that he considered independence as a small business owner to be very important and just did not want a high degree of hardness. Therefore, SC hard is the most important determining variable for this franchisee.
- OC profit/cost. Based on his experiences at DA the franchisee expected that the cost level would rise due to a high degree of hardness.
- OC trust/fd. Based on his earlier experiences with DA, the franchisee expected that OC trust/fd would be very low under DA. Because of his earlier experiences, he felt that trust and fair dealing would become very important with the increasing requirements and when costs were involved. Therefore, the franchisee's expectation of OC trust/fd played an important role.
- SC pos. The franchisee expected that positioning would become lower due to the non-drugstore-related products, while he wanted a higher positioning. He valued his professional status and considered it 'not done' to sell non-drugstore-related products. Therefore, the franchisee expected a low SC pos in the future.
- SC innov. With increasing requirements the rate of innovation would become higher and the franchisee did not consider a high rate of innovation as necessary. Therefore he expected that SC innov would become lower. Additionally, he did not agree with the costs associated with this, which were also partly due to unfair dealing by DA in the eyes of this franchisee.
- SC org. At DA the franchisee had always considered this as not so important because there used to be only a few requirements, and he had a lot of freedom in running his store. But once requirements were introduced at DA the franchisee became annoyed by the low organization of strategic participation at DA. He was afraid that he would again suffer from this if the Prospective Acquisition actually took place.

SC growth was not considered determinant because this had never been enforced in the past, and the franchisee did not expect problems with it. OC capa was not determinant because this franchisee thought that capabilities would not differ much between franchisors. In the past automation had been a very important issue for this franchisee, but at the time of SCT7 he had a good automation system thanks to Brocacef and did not need Brocacef anymore for this.

The franchisee perceived a high attractiveness for alternatives because he could become a CID with another wholesaler as supplier. He considered that he did not need a well-known brand name and therefore becoming a CID was an attractive alternative. Additionally, switching costs were perceived as very low, which made the exit even easier.

The UED franchisor response to this franchisee’s exit was passive. The franchisor just let go of this franchisee. This was mainly because management was focused on other issues related to the acquisition and did not have the time to negotiate with individual franchisees.

Table 8.2 presents a summary of the determining variables for each response type.

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

Table 8.2 Summary of determining variables per response type in order of importance for SCT7

8.7.2 Analysis for SCT8: ‘Some Hardening’

Table 8.3 presents a summary of the data for SCT8. For each franchisee response type the number of respondents (franchisees) is presented, as well as the modus of these franchisees’ perceptions on the independent variables and the responses of the franchisor. The sample consisted of six covo franchisees, five loy franchisees, four amloy franchisees, one agvo franchisee and three 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	Attralt	Swico	
Covo N=6	High (-)	Med/ high (+)	Very high (+)	Very high	NP	Med	Very high	High	Med	Very low	Covo
Loy N=5	Very high	High (+)	High (+)	Very high	NP	Med	Very high	Very high	Low	Very low	Loy
Amloy N=4	Very high	High (+)	Very high	Very high	NP	Med	Med/ high/ Very high	High	Low	Very low	Loy
Negl N=0	-	-	-	-	-	-	-	-	-	-	-
Agvo N=1	High (+)	High (-)	Very high	Very high	NP	Med	Low	Med	Low	Very low	Loy
Ex N=3	High (+)	High (-)	Very high	High (+)	NP	Med	Low	Very high	Med	Very low	Covo and negl

Table 8.3: Summary of data for SCT8

Fig. 8.11 presents the developments of franchisees' responses around SCT8.

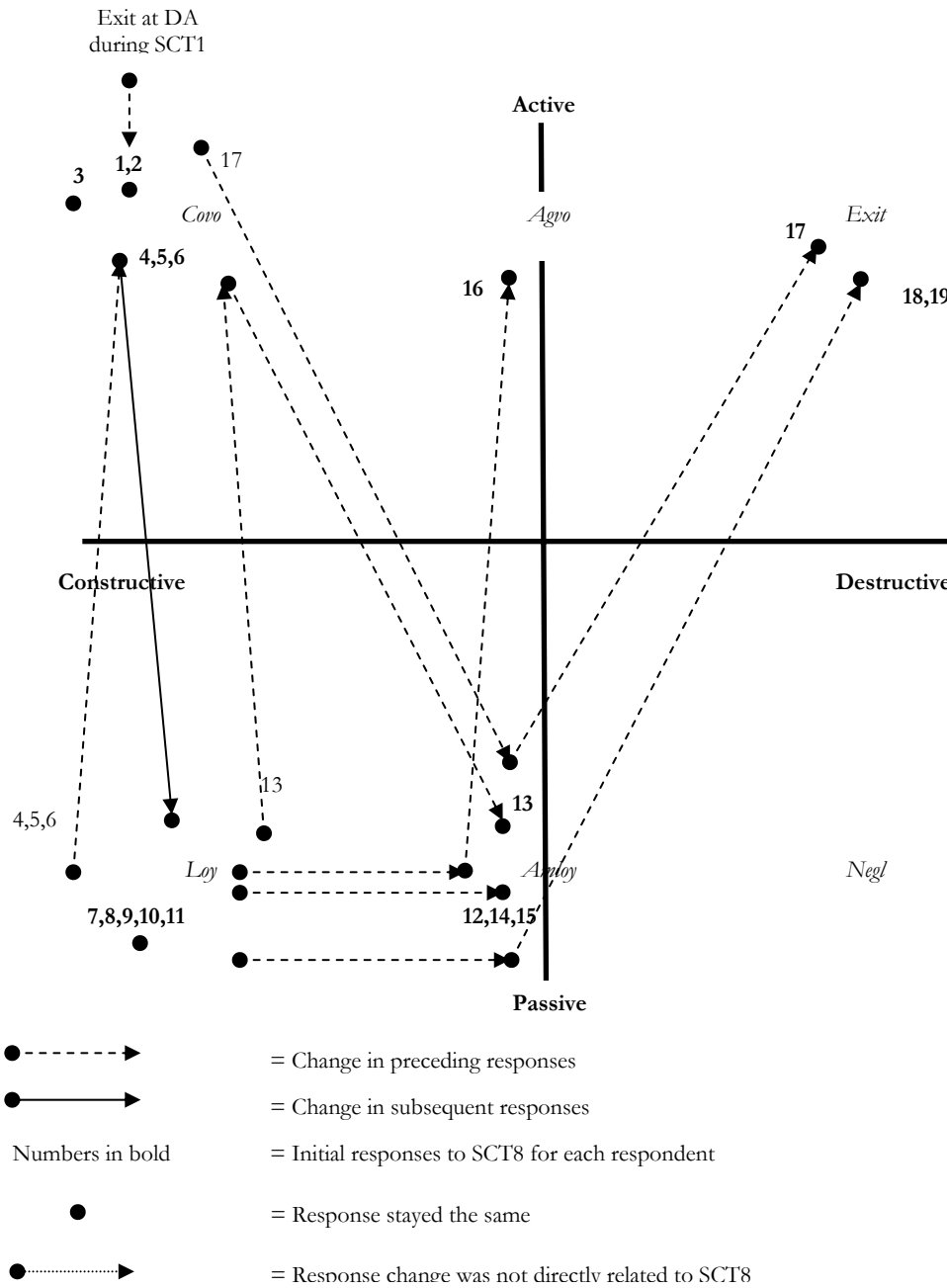


Fig. 8.11: Development of franchisees' responses to SCT8

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Preceding responses to covo

Franchisees 1 to 6 initially adopted covo. Franchisees 1 and 2 had previously exited DA in reaction to the developments during SCT1. One had exited the DA system in the mid-1990s, while the other had exited right before SCT2 was introduced in 2003. Franchisees 3 to 6 had been CIDs before joining UED (3-5) or had started directly at UED when he became a druggist (6).

Covo as initial response

The covo franchisees differed in their motives for adopting covo. Franchisees 1, 2, 3, 4 and 5 wanted the same as the franchisor, that is, to make UED better known and more active in the drugstore market in order to better confront the increasing competitive circumstances, while franchisee 6 was more focused on keeping his cost levels down and felt more 'forced' to adopt covo because otherwise an unbearable situation would arise.

Franchisees 1 to 5 had the following determining variables:

- OC profit. They expected that they could increase their profits if UED were a better known brand name because they could then attract more customers this way.
- SC hard. The covo franchisees perceived a medium SC hard at the time; they wanted the degree of hardness to be higher in order to create a better known UED name and have better negotiating power vis-à-vis suppliers, which would enable them to undertake some promotional activities with lower prices.
- SC pos. They wanted a slightly lower positioning compared to the situation at the time. The franchisees thought they could compete more aggressively and that they could attract more customers to their stores.
- SC innov. These franchisees wanted a slightly higher rate of innovation compared to the situation at the time. They expected that a quicker adaptation of their stores would attract more customers which could increase their profitability. This was especially true on the level of new products; on the level of other adaptations they were a little bit more cautious because these required higher investments.
- OC trust/fd. This had become important due to the increasing requirements. This was very high for these franchisees because as former DA druggists they compared this with their situation at the DA system.
- Attalt. For these franchisees the lack of attractive alternatives played an important role. They actually wanted a better known brand name, but perceived the attractiveness of alternatives as low to medium. DA and ETOS were seen as too hard, while other drugstore systems were seen as too soft and not powerful enough. These franchisees saw in the UED system the opportunity of having a known brand name at acceptable costs.
- OC capa had become slightly more important because certain aspects relating to the franchisor's capabilities, such as automation and purchasing, would become compulsory to a certain extent, and therefore the franchisees would become more dependent on the franchisor for this. However, OC capa was not very determinant because the franchisees did not expect this to be any better at another franchisor.
- SC org. This was considered important because the franchisees wanted to influence the contents of the requirements that would be introduced; they wanted more requirements, but they needed to agree with the contents of these requirements. SC org was perceived as very high by these franchisees, mostly because they themselves were involved in the Franchise Board.

SC growth was not perceived as determinant because this was not considered as part of the requirements; management did not (yet) enforce UED franchisees to renovate or relocate. These franchisees perceived very low switching costs, but this did not influence their responses: first, because of their perception of a very low attractiveness of available alternatives; second, because they expected that SC and OC would become better in the future as a result of SCT8.

The franchisor's response toward the covo franchisees was mainly covo. With the covo franchisees (1,2,3) from the Franchise Board, the franchisor had frequent contact and actively discussed problems in order to come to an agreement (covo). Actually, these franchisees were accelerators ("frontrunners") in the change process: they stimulated management to introduce certain changes in the UED system. The other covo franchisees (4 and 5) wanted to discuss their specific problems concerning the changes, and management adopted covo by explaining why it had made certain decisions.

Franchisee 6 had the following determining variables:

- OC profit/cost. For this franchisee by far the most important issue was the cost level of participating, which he expected to increase due to the increasing requirements. Because he expected that he could not improve his turnover, he considered the cost level of participating as being the most important element.
- SC hard. Since in the eyes of this franchisee the increasing degree of hardness increased the costs of participating, the franchisee wanted to know what this would mean for his store.

Because the franchisee still perceived a large degree of freedom concerning other elements, such as positioning, rate of innovation and growth objectives, the variables SC pos, SC innov, and SC growth were not determinant for this franchisee. The same applied to OC capa, SC org and OC trust/fd: due to the large degree of freedom a low OC capa and a low OC trust/fd would not matter, and therefore they were not determinant. Nevertheless, OC trust/fd was very high because of good personal contacts with the management.

Directly after the introduction of SCT8, the franchisee contacted management to discuss his worries about the cost level, and management adopted covo by explaining why they were introducing more requirements and what it would mean for him, and, based on management's explanation, he switched back to loy.

Subsequent responses to covo

Franchisees 1, 2, 3 remained in their covo response because they were involved in the Franchise Board, while franchisees 4,5 and 6 returned to loy. Franchisees 4 and 6 returned to loy after management had explained what the consequences would be (6), and they had come to an agreement about when to adopt the new exterior (4). Franchisee 5 adopted covo due to increasing competitive circumstances at his location which is why he wanted UED to become more well-known, but he perceived management's covo as not effective. However, he returned to the loy response and accepted a certain degree of incompatibility. This can be explained by his age and his expectation of retiring in a few years.

Preceding responses to loy

Franchisees 7 to 11 initially adopted loy in a reaction to Some Hardening and had decided to sign the new contract. Of these franchisees, numbers 8, 9 and 11 had previously exited the DA system; franchisees 8 and 11 had done this in reaction to SCT1 at DA, while franchisee 9 had exited due to a conflict that was unrelated to SCT1.

Loy as initial response

For the loy franchisees the determining variables were the following:

- OC profit. These franchisees thought that they could increase their profitability by means of the increasing degree of hardness. However, they had a certain threshold for their desired degree of hardness because they expected that at some point the degree of hardness, and the costs associated with it, would not result in higher turnovers and profits anymore.
- SC hard. These franchisees thought the franchisor's degree of hardness was good or could even be slightly higher. In some individual cases, the franchisees had problems with certain changes; for example, they agreed with the requirements with respect to brochures but did not want to change their store exterior. However, these franchisees adopted loy because they thought they could eventually work out these issues with management. In earlier years, management had made many compromises, and therefore these franchisees perceived some room for negotiation. Moreover, the friendly management style might have played a role in this expectation (background variable, see 8.8.3).
- SC pos and SC innov were only important with respect to the elements involved in the requirements to be introduced: because the franchisees would still have a relatively large degree of freedom in choosing their positioning and rate of innovation, SC pos and SC innov were not very determinant.
- OC trust/fd. Due to the increased requirements the franchisees perceived that trust and fair dealing had become more important, although this was only slightly so because the requirements had only slightly increased. They perceived a very high OC trust/fd and therefore did not feel the need to adopt an active response.
- OC capa had become slightly more important for the franchisees because certain aspects relating to the franchisor's capabilities (purchasing and automation) became compulsory to a certain extent, and therefore the franchisees would become more dependent on the franchisor's capabilities for this. They perceived OC capa as medium, but because they did not expect that these capabilities would be different at another franchisor/wholesaler, as a result this was not a determining variable.
- SC org. This also became slightly more important due to the increased requirements, and the franchisees perceived this as very high.

SC growth was not a very important factor because this was not (yet) enforced by the management. The attractiveness of alternatives was also not determinant because these franchisees perceived high degrees of strategic and operational compatibility, and therefore did not feel a need to explicitly evaluate alternatives. However, the attractiveness of alternatives was considered to be low because the other franchise systems were either seen as too hard or too soft and not powerful enough, and continuing as a CID was not considered an option. These franchisees perceived very low switching costs, but this did not influence their decisions because of their high degrees of strategic and operational compatibility with the franchisor and the medium attractiveness of alternatives.

At the time of the interviews, the franchisor's response toward these franchisees was loy because management expected that these franchisees would adopt the requirements in the future, resulting in a high SC hard.

Subsequent responses to loy

At the time of the interview, the franchisees were still in the loy response because there had not been further contact with the management yet.

Preceding responses to amloy

Franchisees 12 to 15 initially adopted amloy in reaction to SCT8; they had not yet signed the contract and were not sure whether they would because they had some objections and wanted to hear management's reaction to this.

Franchisees 12, 14 and 15 had previously adopted loy, while franchisee 13 had adopted covo. As a member of the Franchise Board/Assortment committee franchisee 13 had been involved in the early stages of the developments of the plans for SCT8, and he was glad that some plans had been toned down; however, after the plans were introduced to all the franchisees, he still was not sure whether he wanted to go along with the changes.

Amloy as initial response

For franchisees 12, 13 and 15 the determining variables were the following:

- OC profit/cost. These franchisees mainly looked at the cost level of participating because they considered their turnover level to be stable. Because they had relatively small stores with low turnovers their thresholds on costs and the degree of hardness were relatively low.
- SC hard. They still perceived a high SC hard, but they expected that this would become lower in the future due to the requirements. According to them, an increasing degree of hardness required more investment, and they wanted to know how much the required changes to their store would cost and how this would influence their profits. Additionally, for two of them the feeling of being an independent business owner played a role in their desired degree of hardness; they did not want more requirements because they wanted to feel independent.
- SC pos and SC innov were only important with respect to the elements on which requirements were introduced: because the franchisees would still have a large degree of freedom in choosing their positioning and rate of innovation, SC pos and SC innov were not very determinant.
- OC trust/fd. In general this was high, but one franchisee was suspicious and had some notion of unfair dealing because he thought the franchisor earned a lot of money from the brochures, while for the franchisees the costs were high. However, because the number of brochures was still acceptable, this unfair dealing was acceptable to the franchisee.
- OC capa. This had become slightly more important for the franchisees because certain aspects relating to the franchisor's capabilities became obligatory to a certain extent. The franchisees perceived OC capa as medium.
- SC org. This became slightly more important due to the increased requirements, and the franchisees perceived this as very high.

Toward these franchisees the franchisor adopted loy because it expected that these franchisees would adopt the requirements (resulting in high SC hard).

The situation of franchisee 14 was different, and he had a slightly different order for determining variables: he considered the degree of hardness as the most important factor because he wanted UED to be a better known brand name. He agreed with the requirements for the business format elements, but he did not agree with the 'other requirements' of the contract, such as the selling clause and the penalty clause related to it. The increasing costs were not considered to be a problem below a certain threshold because the franchisee expected to increase his profits with the new requirements. He just wanted to see how he could negotiate with management about the 'other requirements'.

Strategic Interactions in Franchise Relationships

Subsequent responses to amloy

At the time of the interviews, these franchisees were still in the amloy response because management still had not contacted them to sign the new contract.

Preceding responses to agvo

Franchisee 16 adopted agvo as initial response to SCT8, and his preceding response had gone from loy to amloy.

Agvo as initial response

For franchisee 16 the following determining variables played a role.

- OC profit/cost. He mainly looked at the costs of participating, which were related to the degree of hardness. Because of the increasing degree of hardness the franchisee expected OC profit/cost to become lower, while before the introduction of SCT8 the franchisee had already had some doubts about whether the UED system offered enough value for him.
- SC hard. The franchisee thought that the degree of hardness of the system should not become higher because this would result in more investment and higher costs.
- SC pos and SC innov. These were still high/very high at the time, but the franchisee expected these to decrease quickly due to the requirements. He wanted to decide on his own positioning and rate of innovation and did not agree with the contents of the requirements on positioning and rate of innovation.
- OC trust/fd. The franchisee considered this as increasingly important due to the increasing requirements, but considered this to be medium because he felt that the franchisor benefited when he purchased more goods, which was going to happen in the case of increasing requirements.
- SC org. This also became slightly more important due to the increased requirements, and the franchisee perceived this as very high.

OC capa was medium, but the franchisee argued that this would not influence his response because he expected that any possible problems would be eventually solved. SC growth was not determinant because it was not (yet) actually enforced by management, but the franchisee thought the franchisor wanted this because of his interests as a wholesaler. With the franchisee increasing his floor area, he would purchase more from Brocacef, which would increase Brocacef's income. However, the franchisee wondered whether a larger floor area would be of benefit to himself.

The franchisor's response toward this franchisee was a passive one; after the franchisee had notified management about his objections, management had not contacted him anymore, and at the time of the interview two months had gone by.

Subsequent responses to agvo

The franchisee was waiting for the reaction of management and had not switched to another response in the meantime.

Preceding responses to exit

Franchisees 17, 18 and 19 adopted exit soon after the introduction of SCT8. Before this introduction, these franchisees had already been in doubt as to whether they would stay in the UED system or not. They had doubts as to whether membership of the UED system offered value for them (amloy). For these franchisees, the introduction of SCT8 was a 'trigger' for explicitly evaluating their relationship with the franchisor; especially since they

would have to make additional investments, which would increase their switching costs in the future (“future switching costs”).

Exit as initial response

These franchisees differed in their order of determining variables.

For franchisees 17 and 19 the determining variables were:

- OC profit. According to these franchisees the costs and the increasing degree of hardness were related to each other. These franchisees were not sure whether their membership of UED resulted in higher profits, and they actually wanted to ‘test’ this by means of their exit. They were afraid that they would increase their future switching costs by signing a contract and making specific investments, while they were not sure how their profits would develop due to the changes.
- SC hard. They did not disagree with the slightly increasing degree of hardness as such because they considered that a better known name could increase their profits. However, they disagreed with the content of the requirements: they thought the franchisor made the wrong requirements, and therefore they expected that this would not result in higher profits.
- OC trust/fd. This became slightly more important due to increasing requirements; however, this was very high so this was not a reason to exit.
- SC pos and SC innov. Although there were few requirements, these franchisees did not agree with them and expected that this would result in low SC pos and SC innov.
- SC org. The franchisees thought they had too little influence on the contents of the requirements with which they disagreed.

For franchisee 18 the motives for exit were slightly different; he did not want any degree of hardness because this would increase his cost level. He expected that OC profit/cost would decrease due to the increasing degree of hardness.

Franchisees 17, 18 and 19 perceived a medium attractiveness for alternatives; actually they decided to become CIDs, but at the time they did not know whether this would be an attractive alternative. They saw their switch to becoming CIDs as an experiment and expected, if this resulted in lower profitability, that they could switch back to UED. Their barriers for exiting UED were low because they had low contractual or financial bonds with Brocacef. Additionally, because they stayed with Brocacef as a wholesaler, their switching costs were even lower compared to switching to another wholesaler. Moreover, they expected that their barriers for possible re-entry to UED would also be low.

The responses by the franchisor differed between the different franchisees who adopted exit. The management let two of these franchisees go relatively easily because these were the smaller stores that fitted less with the renewed qualitative growth objectives of the management. The franchisees would probably not be willing and/or able to adopt the future requirements (low SC hard) and had a relatively low profitability for the franchisor (low OC profit). The franchisor’s switching costs were low because these stores were only small part of Brocacef’s income. Moreover, because these franchisees kept purchasing at Brocacef, the switching costs for Brocacef were even lower because Brocacef still benefited from them as wholesale customers. These smaller franchisees received a letter from the franchisor that stated that it regretted the decision, and that it hoped the druggists would remain customers of Brocacef as their wholesaling organization. With regard to one of the franchisees, the franchisor made the exit response a little bit more

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difficult by sticking to the term of notice of six months, while other franchisees were able to exit within a few weeks. Eventually, the franchisor and the franchisee negotiated a shorter term of notice that pleased both parties. It was not clear why management made the exit more difficult for this franchisee.

Subsequent responses to exit

All three franchisees did eventually exit the UED system to become CIDs, but they did not exit the relationship with Brocacef because Brocacef remained their wholesaler.

Table 8.4 summarizes the determining variables for the responses of SCT8.

Determining variables for franchisees' responses in order of importance					
Covo	Loy	Amloy	Negl	Agvo	Exit
Franchisee 1 to 5 (“voluntary”): OC profit SC hard OC profit SC pos SC hard SC innov OC trust/fd SC pos SC innov OC trust/fd SC org OC capa Attalt	OC profit 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 OC trust/fd SC pos SC innov SC org OC capa	Franchisee 17 and 19: SC hard SC hard OC profit OC trust/fd SC pos SC org Sc innov SC org Franchisee 18 (“forced”): OC profit/cost SC hard
Determining variables for franchisor's responses (to franchisees' responses) in order of importance					
Response to Covo= covo OC capa SC hard OC profit	Response to Loy= loy OC capa SC hard OC profit	Response to Amloy=loy OC capa SC hard OC profit	Response to Negl= -	Response to Agvo=passive OC capa SC hard OC profit	Response to exit Negl: OC capa SC hard OC profit Agvo: not clear

Table 8.4 Summary of determining variables per response type in order of importance for SCT8

8.8 Summary and conclusions for UED and its SCTs

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

- 8.8.1 Conclusions about the independent variables.
- 8.8.2 Conclusions concerning relationships between independent variables and responses
- 8.8.3 Conclusions about background variables.

8.8.1 Conclusions about the independent variables

1) Conclusions for the franchisees' perspective

Strategic compatibility

- As for the other cases, the tension for the UED franchisees was between the desired degree of hardness and their cost level. UED franchisees differed in the degree to which they considered a well-known brand name as important and therefore differed in their desired degree of hardness. In the UED case two types of franchisees could be distinguished who differed in their perceptions of strategic compatibility. The 'driven druggists' wanted a higher degree of hardness, while the satisfied druggists did not want this. It is highly likely that these druggists differed in terms of certain background variables (see section 8.8.3).
- Also for the UED case, SC innov differed among the various levels of innovation. On the level of new products most franchisees agreed with a somewhat higher rate of innovation; however, they considered that these products were not always available at Brocacef. For suppliers of new products, relatively small and soft systems were less attractive than large and hard systems in which they could reach a certain scale. On the level of business format adaptations and adapting the business format as a whole, the franchisees were more cautious because of their relatively low and stable turnover levels.
- SC org was not considered important by franchisees. This can be explained by the fact that UED was such a soft system that franchisees had much more freedom to run their own businesses and therefore did not consider a high organization of strategic participation as necessary. Moreover, because management was very approachable franchisees directly turned to management in case of problems.

Operational compatibility

- OC profit (or OC profit/cost) was the most important aspect of operational compatibility for the UED franchisees during both SCTs. As was the case at DA, some franchisees focused on the cost levels of participation while other focused more on profitability. Therefore, a distinction was made between OC profit/cost and OC profit with OC profit/cost being a variation of OC profit. Franchisees focusing on their cost levels perceived a stable turnover level and therefore did not expect that extra investments and costs would result in higher profits. The reason for this difference can be found in the background variables (see section 8.8.3). Especially when franchisees perceived weak competitive circumstances, they considered their turnover levels to be stable. Additionally, such franchisees often had a small floor area with relatively low turnover, which made the share of costs and the risks even higher, and these franchisees thought it would take a long time to recoup their investment.
- For OC capa, the following factors were distinguished: logistics, automation, communication, information, purchasing prices, and general support. Of these factors, purchasing prices, logistics and automation were the most important issues. This can be explained by the fact that several UED franchisees saw UED Brocacef more as their wholesaler than as their franchisor.

- With respect to OC trust/fd there had always been a high degree of OC trust/fd in the eyes of franchisees. One explanation for this is the ‘friendly’ and ‘approachable’ style of management (see background variables, section 8.8.3).

Attractiveness of alternatives

With respect to alternatives, the UED franchisees considered becoming a CID to be an attractive alternative. This is in contrast with franchisees in the other cases who considered becoming a CID to be impossible because they thought they needed a more or less well-known brand name.

Switching costs

- Switching costs at UED were generally low, this applied to both contractual costs and financial switching costs. For SCT8, one additional variable played a role, namely ‘future switching costs’ (see also DA and STIP). By signing the new contract, franchisees knew that they would be obligated to make certain investments and they would be contractually bound to the franchisor for a certain time period. Although these future switching costs were still low, for some franchisees this was a reason to exit because they did not want to be bound to a franchise system that they were not really satisfied with.
- As pointed out for the DA case, switching costs can be divided into exit barriers and entry barriers to the alternative. For UED franchisees exit barriers were low, but entry barriers to the alternatives were also low because these franchisees often aimed to become CIDs, which did not require any specific investments. So, there is a relationship between the type of alternative considered as attractive and the high level of switching costs. Moreover, because the UED system stayed relatively soft, several franchisees who exited expected to be able to re-enter the UED system relatively cheaply.

2) Conclusions for the franchisor’s perspective

- As for the other cases, for the franchisor one important tension was the tension between increasing the actual degree of hardness by imposing and enforcing requirements on the one hand, while, on the other hand, risking the loss of profitable UED franchisees who were an important source of income for the franchisor and who sometimes owned important locations. However, for the UED franchisor this tension was less than for the other cases because several UED franchisees stuck to Brocacef for their wholesaling activities, so the franchisor did not ‘completely’ lose the franchisee. However, in these cases the franchisor would lose a UED location.
- As the timelines on positioning, degree of hardness, rate of innovation and growth objectives (Figs. 8.3, 8.4, 8.5 and 8.7) illustrate, for the franchisor, there was not a large gap between its desired scores and ‘what actually happened’ to these franchise system characteristics over time. However, with respect to degree of hardness (Fig. 8.4), management had wanted a higher degree of hardness over time, but they had not dared to enforce certain requirements because they were afraid that many UED franchisees would exit. This was an important tension for the franchisor in SCT8: the tension between increasing the actual degree of hardness by imposing and enforcing requirements on the one hand, while, on the other hand, risking the loss

of UED franchisees who were an important source of income for the franchisor and who sometimes owned important locations. On introduction of SCT8 it became clear that strategic compatibility differed between two different groups of UED franchisees, the 'driven' and the 'satisfied druggists', and management had to deal with both these groups. However, the share of driven druggists had become larger over time, and this influenced what actually happened to several franchise system characteristics.

- As in the other cases, the organization of strategic participation actually played another role for the franchisor than the other franchise system characteristics. From the franchisor's perspective, the organization of strategic participation was merely an instrument for creating support among the majority of franchisees. This was particularly important during SCT8 when management aimed to slightly increase UED's degree of hardness.

3) Relationships between indicators of the variables

- As for the other cases, the UED case provided indications for relationships between franchise system characteristics. During SCT8 the franchisor aimed at a slightly lower positioning and a higher rate of innovation, which required a higher degree of hardness. Moreover, with a higher degree of hardness growth objectives became more qualitative and franchisees' strategic participation became more organized. Chapter 9 will present a more systematic analysis of possible relationships among the franchise system characteristics.
- Again, there were indications for relationships between the actual scores⁷⁵ on three franchise system characteristics: degree of hardness and rate of innovation on the one hand, and the cost level for franchisees on the other hand. During SCT8 management aimed at a slight increase in degree of hardness and rate of innovation, which slightly increased the cost level for franchisees and thereby franchisees' perceptions of OC profit (and OC profit/cost).
- Relationships between alternatives and switching costs. This relationship has already been pointed out; the type of alternative that was considered attractive influences the height of entry barriers for this alternative as part of switching costs. Because most UED franchisees considered becoming a CID or looser franchise systems as attractive alternatives, their entry barriers to alternatives were low.

8.8.2 Conclusions concerning relationships between independent variables and responses

1) Conclusions for the franchisees' perspective

Conclusions for responses as such

- As was the case for DA, the UED case also shows that there is a difference between the 'exit from the franchise system' and the 'exit from the relationship'. At UED, several franchisees exited the UED system but stayed with Brocacef as

⁷⁵ By 'actual' I mean that these aspects should be *actually* enforced; if the franchisor imposes obligations but does not really enforce them, the franchisees can still get away with not adopting the obligations.

wholesaler, and therefore did not really exit the relationship. For Brocacef this was an advantage because it still had these druggists as wholesale customers. The franchisees also considered this as advantageous because they did not have to switch to another wholesaler, which kept their switching costs low.

- As in the other cases, the UED case indicated that a new type of response should be added to the current typology of responses, namely the ‘ambiguous loyalty’ response. Especially during SCT7 this response was adopted by a large group of franchisees. During SCT7 future developments for UED were very unclear, and franchisees just waited to see what would happen before adopting further responses.
- In the UED case franchisees also differed in their motives for adopting covo or exit, and the difference between ‘forced’ versus ‘voluntary’ covo and ‘forced’ versus ‘voluntary’ exit can be made (see section 5.8.2).

Conclusions about relations between independent variables and responses

For the UED case the following aspects turned out to be important for understanding why a certain franchisee adopted a certain response at a certain point in time. These variables were already discussed in the conclusions for the other case study chapters and will therefore not be discussed further:

- The franchisee’s determining variables at this point in time; in other words, which variables does the franchisee consider as important in the relationship at this point in time.
- The franchisee’s perceptions of these determining variables at this point in time.
- The franchisee’s thresholds on these determining variables. By ‘threshold’ is meant that the franchisee accepted a certain level of 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 regarding these determining variables.

Moreover, as in the other cases several franchisees switched between responses over time. These response switches were caused by:

- Changes in franchise system characteristics, which resulted in changes in strategic compatibility. During SCT8, management desired a slight increase in hardness and rate of innovation and a slightly lower positioning. During SCT7 franchisees also expected certain changes in some franchise system characteristics because the DA system had slightly different characteristics. Both the changes (and expectations of changes) triggered franchisee response switches.
- Changes in one of the other independent variables; OC capa, OC profit (or OC profit/cost), OC trust/fd. For SCT8 the most important were changes in OC profit (or OC profit/cost); when franchisees expected a lower OC profit they often adopted an active response.
- Responses of the franchisor. Franchisees modified their own responses based on the responses of the franchisor. In some situations, UED franchisees perceived a passive response by the franchisor when they wanted to discuss their issues; however, due to the response of the franchisor they expected that the situation could not be changed, so they adopted exit in return.

- Changes in background variables. The background variables are discussed in section 8.8.3. These background variables indirectly influenced the perceptions of the franchisee about the independent variables, and therefore indirectly influenced the franchisee's adoption of responses. The influence of changes in background variables became especially visible in the UED case. For some UED franchisees their competitive circumstances had changed from weak to strong due to the entry of a competitor in their local market (for example Kruidvat), which influenced their desired scores on the franchise system characteristics.

As Tables 8.2 and 8.4 pointed out, the determining variables differed among the responses.

- The voluntary-covo franchisees and loy franchisees during SCT8 had the same determining variables. These franchisees also had to deal with the tension between a well-known brand name and the costs attached to it. The UED 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 to be important, these thresholds were lowest, and they switched more quickly to an active response. The voluntary-covo franchisees had the highest thresholds in this because they expected to be able to increase their profits by operating under a better known brand. The same applied to the loy franchisees although they had lower thresholds on this. The voluntary-covo franchisees were the 'frontrunners' during SCT8, while the loy franchisees just passively adopted the requirements. It is interesting that these frontrunners saw very few attractive alternatives and, by means of adopting covo, they tried to make UED more attractive for them.
- The desired degree of hardness by the franchisor was still relatively low so most franchisees could deal with the tension between the increasing degree of hardness and increasing cost level. It was mostly the UED franchisees with smaller drugstores and with low turnover levels who felt more or less forced to adopt an active response.
- The amloy and agvo franchisees considered their turnover levels to be stable and therefore focused more on OC profit/cost as part of OC profit. In contrast, the voluntary-exit franchisees were not sure about whether they could increase their profits by means of their UED membership.
- Over time there had always been very few requirements for franchisees; before SCT8 the only requirements had been with brochures, which slightly influenced positioning (and therefore SC pos). However, during SCT8 management wanted to impose some more requirements, and the situation got slightly more complex because certain variables become more determinant. Management wanted some more requirements on positioning and on the product level of rate of innovation. Therefore SC pos and SC innov on the product level became slightly more determinant during SCT8. Moreover, OC trust/fd and SC org became more determinant, but only with respect to the few requirements at that time. In sum, as soon as management wanted to require certain aspects, it was important that franchisees should perceive a certain degree of compatibility on these elements. 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. However, because the UED system would still be relatively soft, these variables would not be as important as they were in the DA and ETOS systems (see Chapter 9).

- There was a 'hierarchy' in determining variables as to the degree in which they influenced the franchisees' responses. First, the franchisees 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 and the costs of switching to possible alternatives.

2) Conclusions for the franchisor's perspective

The franchisor's responses were relatively stable compared to the franchisees' responses, and so were the franchisor's determining variables. As pointed out, whether the franchisee could fulfill his financial obligations (OC capa) was considered to be a necessary condition. Especially before SCT8, it did not matter to the franchisor whether a specific franchise relationship was very profitable or not. As long as it was profitable enough, and the franchisee could pay his financial obligations, there was no problem, and therefore OC capa was the only determining variable for the franchisor during SCT7. However, once management wanted an increasing degree of hardness (during SCT8), a tension arose between imposing and enforcing requirements and the risk of losing profitable franchisees. The higher the desired degree of hardness and profitability of the franchisee for the franchisor, the greater the tension; especially when a very profitable franchisee did not want to adopt certain requirements.

The franchisor adopted loyalty when he expected that a franchisee could and wanted to go along with the increasing degree of hardness. Toward the franchisees whom the franchisor expected could not or did not want to adopt the requirements, the franchisor mostly adopted neglect; he expected that the franchisee himself would decide to exit. During SCT8, management expected to adopt exit responses itself in order to break with franchisees who did not want to adopt requirements. It is interesting to see that management only adopted co-visibility toward franchisees whom they thought could help them in creating support with the majority of franchisees, or when the franchisor did not want to lose specific franchisees.

8.8.3 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

From the franchisees' perspective, the following categories of background variables are distinguished:

- Store characteristics
- Franchisee characteristics
- Franchisor characteristics

- Characteristics of the franchise system.

One important comment that needs to be made before discussing these background variables is that of the distinction between ‘satisfied UED druggists’ and ‘driven UED druggists’. It was pointed out that these groups differed in their way of evaluating their franchise relationship. The driven druggists wanted a higher degree of hardness because they thought it could improve their profitability, while satisfied druggists mainly wanted to leave things the way they were. The differences between these types can be explained by differences in background variables, especially store characteristics and franchisee characteristics. It is likely that the driven druggists perceived other competitive circumstances than did the satisfied druggists and therefore had different desires about franchise system characteristics. The same is true for the personal characteristics of these franchisees; it is highly likely that these types of UED franchisees differed in their personal characteristics.

Store characteristics.

- Location characteristics. As for the other SCTs, one important variable of store characteristics for SCT7 and SCT8 turned out to be the store’s location and its competitive circumstances. The UED stores differed slightly in their competitive circumstances, and therefore UED franchisees had different desired scores on, for example, the desired degree of hardness or positioning. With relatively weak competitive circumstances, such as found in small villages, franchisees perceived their turnover level as stable; so they thought they did not need a well-known brand name to attract customers. In some cases, a strong competitor (mostly Kruidvat) had entered the franchisees’ local market, which changed the franchisees desired score on certain franchise system characteristics. Because the UED stores were located in slightly different locations, this might indirectly explain differences in perceptions of SC and OC among the UED franchisees.

Franchisee characteristics.

- ‘History’ of the franchisee. During SCT7 several UED franchisees based their response on their earlier experiences with DA. Several UED franchisees had come from the DA system, and they compared the UED system with their experiences with the DA system.
- Personal characteristics. Several franchisees had a high desire for independence, which was a personal characteristic that influenced the desired degree of hardness. For example, franchisee 9 had a high desire for independence and was very sensitive to any kind of requirement.
- Another background variable that indirectly influenced the franchisee responses was the sex of the franchisees. Several UED franchisees were women whose husbands had their own occupations, and therefore they felt less dependent on the income from the store, resulting in lower switching costs.
- Stage in life cycle of the franchisee’s business. This stage had an indirect effect because sometimes franchisees were nearing retirement and therefore accepted certain degrees of compatibility below their thresholds.

Franchisor characteristics.

- The 'friendly' style of management had attracted several druggists to UED and influenced the franchisees' perceptions of the relationship with the franchisor. For example, due to the friendly style of the managers, franchisees perceived a high degree of trust and perceived a low degree of hardness.
- Reputation effects. During SCT7, the negative reputation of DA caused certain expectations among the UED franchisees, who themselves had not had any direct experiences with DA. The reputation of DA's franchisor influenced the UED franchisees' expectations of strategic and operational compatibility for the future.

Characteristics of the franchise system.

- The 'starting point' of the system at the beginning of Some Hardening played a role: during 'Some Hardening' the degree of hardness of the UED system was supposed to change from very soft to a medium degree of hardness, which is another starting point than going from a medium degree of hardness to a very high degree of hardness. After Some Hardening, the UED franchisees would still have a large degree of freedom, and this can explain why most franchisees adopted loy.

2) Background variables from the franchisor's perspective

The background variables from the franchisor's perspective consist of one category, namely managerial characteristics. These consist of the following two background variables:

- Management's experience with former strategies. This influenced what management saw as viable strategies during SCT8, and how these strategies should be implemented. They had had earlier experiences with introducing requirements in the UED system and based on these experiences they were extra cautious about introducing requirements during SCT8.
- Personal characteristics of the managers. The managers from the management team had certain personal characteristics which indirectly influenced their management style and the way they responded to franchisees. As pointed out, the management style was very friendly.

One background variable that can be added is the role of the corporation/holding (see Fig. 1.2). SCT7 has shown that a Holding can have an influence on the relationships between franchisor and franchisees. In the UED case, with its decision for acquisition by a certain party, Brocacef Holding indirectly influenced developments in the relationships between Brocacef and the UED franchisees. The Holding's choice of DA gave the franchisees other expectations than if they had chosen another acquisition partner, such as Faco (with DIO and ABC as drugstore systems).