

# Strategies of the Operating Mechanism Reformation for Private Express Enterprise

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## Abstract

Based on the theory of brand economics, this paper introduces the conception of the external effect, and analysis the operating mechanism problem between the private express enterprises and their franchisees by using economic models. The result shows that: Whether the franchisees implement the favorable brand strategies, there will be the brand externality which could give rise to inefficiency in the operation of the brand chain. Furthermore, the paper works out the better business model which is to reform the current model to self-operation model. Finally, the paper tries to propose the reformation ideas and some strategic suggestions.

**Keywords:** franchisees; brand economics; external effect; reformation

## 1. Introduction

In recent years franchise-chain model promotes modernization development in the field of good circulation with its great advantage, and it is regarded as a revolutionary innovation. Numerous private express enterprises adopt the model of franchise-chain to expand their market as the enterprises grow larger gradually. However, some private express enterprises only pay attention to scale, quantity, and the unity of the external form of the branches regardless of supervision, which results in

a series of problems. So it is urgent and necessary to discuss how to solve the problem and come up with a better business model. This paper analyses the operating mechanism problem between the private express enterprises and their franchisees by using economic models, and think about the model innovation efficiency maximization.

## 2. Economic analysis of operating mechanism

As to the private express enterprises, it is a game to use the brand for both of the enterprise headquarters and the franchisees. According to the brand economics theory, the brand is an exclusive category symbol to achieve long-term interests balance with target customers, so as to effectively reduce the choice cost for consumer. It is also the enterprise's intangible asset.

Enterprises first shaped brand and then provided it to the franchisees, then enterprises and franchisees offered the service products to customers, this process produced brand tension. Because of brand customers can choose this brand and reduce choice cost, so this process realized the cash flow cycle.

First of all, from the view point of franchisees under different conditions, here we discuss that how the franchisees will react to achieve their best interests. Suppose the franchisees' profit function is as below:

$$\pi_i = PQ_i - C(Q_i) \quad i = 1, 2, \dots, n \quad (1)$$

$\pi_i$  represents business profit of franchisees;  $P$  represents service market prices;  $Q_i$  represents business sales;  $C(Q_i)$  represents cost function of franchisees.

According to the brand economics theory, the franchisees' business sales is ultimately decided by customers' choices, and customers' choosing behavior is decided by the alternative cost or brand credit degree. So the sales and alternative cost is inverse relationship, sales and brand credit degree is positive relationship. Therefore, the sales of franchisees can be expressed as below:

$$Q_i = f(P, C_{ci}) = f(P, B_i) \quad i = 1, 2, 3 \dots, n \quad (2)$$

$$\frac{\partial Q_i}{\partial C_{ci}} < 0, \frac{\partial Q_i}{\partial B_i} > 0$$

$C_{ci}$  represents brand choice cost;  $B_i$  represents brand credit degree of franchisees. Brand credit degree is decided by brand category degree and brand strategy, brand credit degree has positive relationship with brand category degree, and also has positive relationship with brand strategy. So the franchisees' sales can also be expressed as below:

$$Q_i = f(P, b_i * s_i) \quad i = 1, 2, \dots, n \quad (3)$$

$$\frac{\partial Q_i}{\partial b_i} > 0, \frac{\partial Q_i}{\partial s_i} > 0$$

$b_i$  represents brand category degree;  $s_i$  represents brand strategy.

The franchisees can only change the brand strategy, and the enterprise's overall brand credit degree will be influenced by their strategy.

As the franchisees use the same brand and make the same price as  $P$ , therefore, for different franchisees, we can consider the customer choice cost  $C_{ci}$  and brand

category degree  $b_i$  are the same, they can't be changed by themselves.

Suppose one franchisee takes attention to brand strategy, so it will improve the brand credit degree and also improve the whole brand reputation. It will improve the service business sales of all.

If one franchisee pays attention to brand strategy, its own demand curve will move to the right, the enterprise overall demand curve will also move to the right, it brings an increase in demand. Conversely, if one franchisee ignores the brand strategy, it can cause brand credit degree decline, and with its own demand falling it can also cause the business requirements of the overall decline at the same time. In this process, the behavior of a single franchisee will cause impact to other franchisees as well as the brand. From the following figure we can see it.

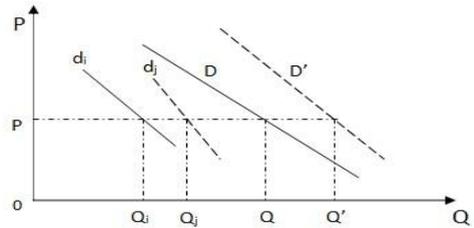


Fig. 1: Relationship of Brand strategy and demand.

Through the above analysis, we can get the relationship between the enterprise efficiency and franchisees' brand strategy behavior choice. Because of the external effect, each one franchisee will have effect on the whole enterprise brand inefficiency. When the franchisees are positive effected by external effect, other franchisees are not willing to take brand strategy to let others take advantage, it results in the overall service sale volume to drop lower than the expected sales. When the franchisees are negative effected by external effect, franchisees will take action to increase their own income which may damage the interests of the whole enterprise. Therefore, it is not efficient to the

enterprise brand whatever strategies franchisees make, and by the franchise-chain model enterprise get the smallest benefit. So the best solution is to eliminate the influence of the brand external effect and change the business model to self-operating model.

### **3. Necessity of Model Reformation**

As to private express enterprises, in order to maximize their own interests, they reduce work link cost to get more profit. Due to the difference of operating costs, it is difficult for many private express enterprises to reach the integrated operation and unified service standard. And the franchisees also lack of construction and planning of service standard and service quality system of their headquarters.

With the rapid development of economy, model of franchise-chain already can't adapt to standardization and the development trend of globalization of the express industry. The model reformation success example, ShunFeng express proves that to have industry operation model reformation is urgent and necessary. Therefore, private express enterprises must carry on the reformation activities of business model, only in this way to can private express enterprises realize the sustainable survival and development.

### **4. Strategies of Model reformation**

Through the above analysis of the private express industry, and combining with the actual situation, here we propose the ideas of private express reformation development of model, which is through three phases of successive reformation, enterprises should implement step by step. Considering the risk which reformation will bring, make preventive feasibility report to prevent and dealing with risk, then gradually reform from the franchise-chain model to self-operating model.

### **4.1. Goal of Reformation**

Considering the process to reform will be a great improvement project, the reformation process is divided into three phases: In the first phase, the enterprises should turn the single model of franchise-chain to three models together. That is to change part of the franchise-chain express network to self-operating network, and another part of the franchise-chain network to agency, and remain part of network as the original model. Proportion of the three models can be adjusted according to private express enterprises' own situation. In the second phase, take priority of self-operation model and supplement the franchise-chain model and agency business model as little part. In the third phase, it is time to cancel the franchise-chain model, take priority of self-operation model and supplement proper part of agency business model.

### **4.2. Principal of Reformation**

Reformation should be taken step by step. To implement the activities into small steps is to focuses on the situation reality of private express enterprise, and they should take the competitive advantage of the cost priority into account, give consideration to the enterprise's desire of survival first and develop then. During the reformation process, enterprises should accelerate speed of establishment of a modern enterprise management system.

The reformation should be according to industry economic development situation and should be formed of smooth transition in step in the process, that is to avoid unrest even crisis of the reformation.

### **4.3. Risk Management of Reformation**

#### **4.3.1. Factors of Risk**

Reformation activities will inevitably involve the franchisees' own interest adjustment. To make early predictions of

various challenges and risks, and to formulate the corresponding strategies and solutions, the risk can be controlled to a minimum degree.

The main risk factors are as following:

In the optimizing reformation process, as the assets evaluation may not reach a psychological price for the franchisees, some franchisees would refuse to transform or ask enterprise for a claim because of the expiration of contracts, or even boycott reformation and shareholding restructuring collectively.

As the franchisees are individual operation, they thought they are “bosses”. After the reformation part of the “bosses” may not change their mentality in a short time, and it is difficult for them to become into professional managers. If the original operators participate in management of the enterprise after being reformed, it will be a change in form but not in content.

After the reformation the professional managers can't reach the designated position, and if the original staff cannot be arranged appropriately, the group may even refuse to cooperate.

#### **4.3.2. Counter measures of Risk**

Firstly, before reformation, enterprises should analyze the strengths, weaknesses, opportunities, threats of the reformation. It is to make the franchisees to reach a common view. Secondly, based on the detailed survey, enterprises need to develop and demonstrate the feasibility of the risk prevention plan. Formulation of reformation plan should be discussed with the franchisees about the fairness, feasibility and detailed implementation measures.

Then enterprises need to prepare enough money to take the reformation. If short of money, there is a way to adopt the participated investment of related industry. Enterprises should choose those consulting enterprises which have quali-

fication and reputation to make precise asset evaluation of franchisees.

At last in addition, ask the “bosses” to have training and evaluation before they are able to be professional managers. The original staffs also need to have comprehensive assessment and adjustment training. Those who pass the training evaluation should be put to the right position.

### **Conclusion**

As to private express enterprises, Franchisee-chain model is not only a process of scale expansion, but also a process of shaping enterprise reputation and brand impact. Through the above analysis, franchisee-chain model can't adapt to the development of economy. Model Reformation is the best way to solve the problem for private express enterprises according to the reality of the industry, and it is also a best management measure to change the extensive management into controlled management..

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