

INNOVATION IN BUSINESS MODELS: FRANCHISE INDUSTRY CASE STUDY

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ABSTRACT

Business model has grown huge in the era of 1990s. The development occurred has shown that the role of an evolving business mechanism will affect the activities pattern in its self. In Indonesia, Franchise has begun to develop in the middle of 1980s and it shows a significant positive progress. Some of the pioneers in Indonesian market are the food service, or the fast food restaurant such as McDonald, Burger King, and Kentucky Fried Chicken (KFC). Early 1998s, after the Indonesia monetary crisis has passed, local franchisor began to rise up with a cheap set-up fee, and even no franchise fee for the franchisee. The objective of this research is to explore any factor that could affect the change of this franchise pattern, and also the new value proposition offered by the local franchisor. The focus of this research is about the process of franchise business model development in Indonesia, especially small-average company franchise. This research will give a huge benefit to other researcher to discover more about business models in the franchise business using this research result, and also help the small-average company to expand and implement some business innovation. The type of this research is exploratory and using primary data source, gained from direct interviews with food and beverage franchisor in East Java. The results show that strong commitment, business spirit, trust, corporation to work together, business orientation, honesty, service oriented, and friendliness are important factors to enhance franchise business success. Also, training for human resources id given by franchisor and the training is focused on product knowledge, value understanding, food serving and preparation technique, quality service and administration skill are important element to support the success.

Key words: Business Model, Franchisor, and Franchisee

A. CASE STUDY BACKGROUND

Business model has grown huge in the era of 1990s. The development occurred has shown that the role of an evolving business mechanism will affect the activities pattern in its self. It appears to be the cause why the development of business mechanism is always following the general business pattern. But, in a certain condition, the pattern of business models development has advanced more compared to the demand of the general business demand. This phenomena show that the business models did not only follow the business worlds demand, but they have the power to drive the demand. Management's readiness to adapt the development of business worlds creates a lot of new ideas which surpass the demand of business environment.

Some of the industries which have experienced a positive change, such as retail industry, consumption goods, bank, and also non-bank finance industry. Most of these industries development are triggered by the development of Information Technology. But there are also a few industries which their development follows by the pattern of business models that always a step ahead compared to the business demands. The example of this kind of industry is the franchise industry. A connotation of the franchise industry shows the pattern of industry that uses the approach of easy and simple organizing and business development, and it can be related to some other industries. In Indonesia, Franchise has begun to develop in the middle of 1980s and it shows a significant positive progress. Some of the pioneers in Indonesian market are the food service, or the fast food restaurant such as McDonald, Burger King, and Kentucky Fried Chicken (KFC). These foreign franchisors usually have a joint relationship with the local franchisees. In that period, local franchisors have not existed yet, so those foreign franchisors don't have any meaningful challengers. But in the early 1990s, some other franchisors have opened their own shop and they are also started from fast food restaurant. Some of them are Texas Fried Chicken, *Es Teler* 77, and some more. These actions are followed by the presence of another franchise, such as Dunkin Donuts, Wendys, and A&W. Most of the foreign franchisor charge an expensive set-up fee (up front fee) and franchise fee (ongoing sales royalty), so does the other local franchisor. Early 1998s, after the Indonesia monetary crisis has passed, local franchisor began to rise up with a cheap set-up fee, and even no franchise fee for the franchisee.

The objective of this research is to explore any factor that could affect the change of this franchise pattern, and also the new value proposition offered by the local franchisor. This research reveal about franchise industries in Indonesia, especially low investment franchisor company, or franchise in small-average company category, food and beverages company in particular. The focus of this research is about the process of franchise business model development in Indonesia, especially small-average company franchise. This research also studies about the value proposition offered by the franchise industry, with the transformation of high budget franchise model becoming low budget franchise

model of food and beverage industry. The Data of Food Franchise with capital less than IDR100 million can be seen in table 1 below

Table 1
Data of Food Franchise with capital less than IDR100 million

No	Brand	Number of Outlet	Year Invented	Starting Capital	City
1	Dobbi	20	2002	14-50 mil	Jogya
2	Donut Boyz	20	2005	9 & 100 mil	Jakarta
3	Buana Burger	35	2006	2.5 mil	West Jakarta
4	Kebab Turki Baba Rafi	50	2003	Gerobak 40 mil, Booth 60 mil, Mail 80 mil (include Franchise fee)	Surabaya
5	Magfood Red Crispy	250	2003	100 mil	South Jakarta
6	Bakmi Raos	150	2003	8-35 mil	South Jakarta
7	Edam Burger	2500	1990	2.5 mil	-
8	Mr.Burger	2000	1990	3 mil	South Jakarta
9	PicaZZo	-	2001	3 mil	-
10	Roti Maryam ABA-ABI	15	2004	30 mil	Surabaya
11	Bakmi Tebet	117	2002	90 mil	Jatibening Bekasi
12	Pisang Pontia	6	2005	20 mil	North Jakarta

Source: Info Franchise, 2006

Based on the existing indication, the main objective of this research is to find out more about franchise business model industry development process in Indonesia, the different value proposition offered between the classic franchise business model and the small-average company franchise model and compared with the classic franchise model, the value offered by the small-average company franchise fit today's business condition more. This research will give a huge benefit to other researcher so they will be able to discover more about business models in the franchise business using this research result. This research will also help the small-average company to expand and implement some business innovation as the business world move faster, or becoming a leader to extend their company. For the existing franchise company holder, this research will help to explain the development of franchise and the expectation for the next discovery in franchise business. Hopefully, it will make them act proactively to the change.

LITERATURE REVIEW

A. DEFINITION OF FRANCHISE

Franchise or Franchising is originated from the French language, means "for honesty or for freedom". There is a lot of definition can be taken from the term "Franchise", defined simply as a privilege, formed or given by the Franchise

Giver (Franchisor) to the Franchise Receiver (Franchisee) and it obliges the Franchisee to pay some bills and obligation to the Franchisor. But, in the context of business format, Franchise has more than one definition, such as according to David J. Kauffman: "Franchising is a system of marketing and distribution whereby a small independent businessman (franchisee) is granted, in return for a fee, the right to market the goods and services of another (franchisor) in accordance with the established standards and practice of the franchisor and with its assistance. According to IPPM, Franchise is translated to Indonesian as "Waralaba" originated from the words "Wara" and "Laba". "Waralaba" means an effort that gives more/special profit. According to Indonesian Franchise Association: "Franchise is a goods or service distribution system to the end customer, as the owner of the license (franchisor) gives the right to any individual person or company to do their business activity using the brand, name, system, procedure and ways that have been decided before in a certain period of time and a given area coverage." According to Government's Decision No.16 1997 about Franchise: "Franchise is a relation where one party is given the right to take benefit or using the right of intellectual richness or discoveries or a special characteristic of the other party with any compensation according to the requirements decided by the giver party, in the means of supply and or the sale of a certain item or service."

Sawhney et.al (1996) explained that business innovation is the creation of a new substantial value for the customer and related company by creatively changing one or more dimensions of a business system. This statement gives a clearer understanding that there are no less than three important characteristics in a business innovation. First, business innovation is connected to new value, not something new. Second, business innovation appeared in many ways. Business innovation could show up in every dimension of the business system. A successful business innovation needs a good and detailed consideration to any business aspect. Finally, implementation of a new technology can also give less contribution. Therefore, a company should consider every dimension of its business system. Franchise business model indeed attracts people and becomes a trend in business model which shows a great prospect as an alternative way to do business.

C. UNDERSTANDING THE BUSINESS MODEL

Basically, business model is an idea and also a choice that has to be defined particularly by the objective to keep the existence of company and strengthen the business in the map of competition that created in the business environment. Simply said, Rappa (2002) stated that a business model is the method of doing business by which a company can generate revenue to sustain itself. This statement gives the understanding that a business model is the method of doing business run by the company to gain profit to keep the company going. More detailed, Chaudhury and Kuilboer (2002) explained that Business Model

describes the basic framework of a business. It also tells what market segment is being served (who), the service that is being provided (what), and the means by which the service is produced (how). And it's clear that business model describe the basic framework of business, such as the target market to serve (who), type of service (what) and media or certain tools can be used to serve (how). Another opinion about business model is brought up by Osterwalder. He stated that:

A business model is a conceptual tool that contains a set of elements and their relationships and allows expressing the business logic of a specific firm. It is a description of the value a company offers to one or several segments of customers and of the architecture of the firm and its network of partners for creating, marketing, and delivering this value and relationship capital, to generate profitable and sustainable revenue streams. (Source: <http://business-model-design.blogspot.com/2005/11/what-is-business-model.html>).

This statement explains that business model is a conceptual tool, contains a chain of elements and its relationship, also express the company logically. It's a description of the company value in serving one or any customers segment, also became the business architecture with the supply chain partner in creating marketing and distribution of the value itself and as a basis of a relationship to attain profit and keeping the revenue flow. It can also be understood that a business model can't be split from innovation especially in creating a new discovery with an economic value for the business itself. Business model also describes the effort of the company in obtaining revenue or fund from the company position in the business supply chain. That means business model also contains entrepreneurship, strategic, financial, operational, and marketing characteristic.

Another opinion about partnership is given by Weill and Vitale (2001), states that "A business model as a description of the roles and relationships among a firm's consumers, customers, allies, and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants". They explain that a business model describe about the role and the relation created between consumers, customers, partners, and suppliers that identifies the largest flow of product, information, fund, and any benefit to the participants.

D. BUSINESS MODELS ELEMENTS

Fundamentally, a business model is composed of components or elements. These elements are the responsible one to give characteristic and unique feature of a chosen and implemented business model picked by the company. Rayport and Jaworski (2001) said that elements of business model are divided specifically into: (1) *Value proposition or a value cluster for targeted customers* ; Value proposition, a value cluster for targeted customers, (2) *A scope of market space offering, which could be a product, service, information, or all three.* The scope

of market place company wanted could be a product, service, information or combination of all three, (3) *A unique, defendable resource system, i.e., the associated resource system to deliver the benefits*; Unique, as a defendable resource system, for an instance, the associated resource system to deliver benefit., and (4) *A financial model, which includes a firm's revenue models, shareholder value models, and future growth models*. A financial model, applied to run the company. Such as the revenue models, shareholder value models, and future growth models.

Alt and Zimmermann (2001) stated that a business model covers 6 generic elements, they are (1) mission, i.e., a high level understanding of the overall vision, strategic goals, and the value proposition; (2) structure that determines which roles and agents constitute and comprise a specific business community as well as the focus on industry, customers, and products; (3) processes, which provide a detailed view of the mission and the structure of the business model; (4) revenues, which are the bottom line of a business model; (5) legal issues that have to be considered with all dimensions of business models; and (6) technology, which is both an enabler and a constraint for technology-based business models.

Dubosson-Torbay, Osterwalder and Pigneur (2002), together summarize opinions of many experts and conclude that elements of business model can be grouped as (1) product innovation or value proposition, (2) customer relationship, (3) infrastructure management, and (4) financial aspects that can be found throughout the three former components, such as cost and revenue structures. And Osterwalder (2006) also made the business model template and grouped it into 4 (four) main elements, (1) infrastructure, (2) Offer, (3) Customer and (4) Finance and also explained in detail about the business model.

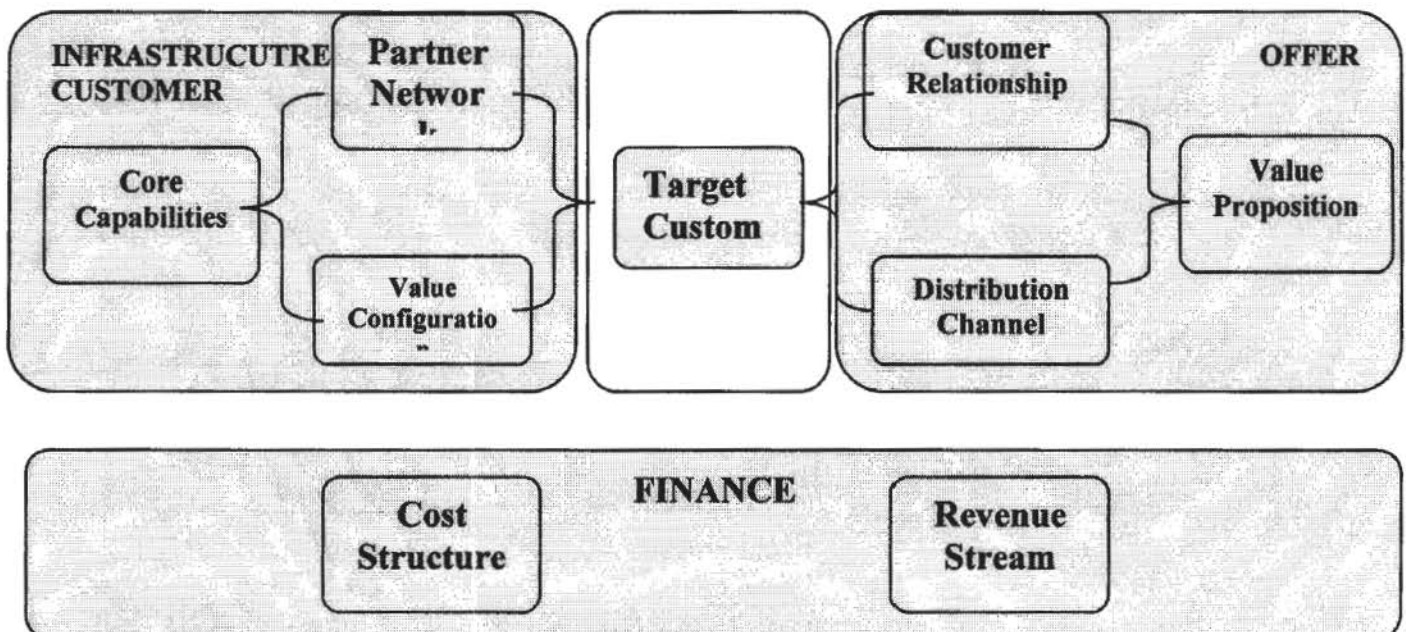


Figure 1. Business Model Template

In the picture 1, we can see that elements of business model practically done in a synergistic way, begun from finding out what really is the need and demand of customers, doing internal business process to fulfill the customers need, define specifically about how to define characteristic of the targeted customer, deliver the product or service to the customer and the effort to create a fine and continual relationship with the customer. The last is the effort of costing and obtaining revenue from business activity. Generally, the process of business model can be seen in picture 1. For the flow of activity in the business model template on picture 1 can be explained in picture 2.

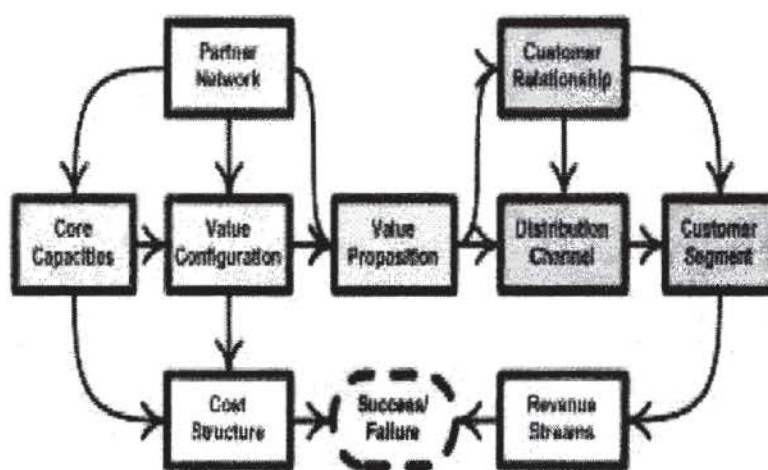


Figure 2. Business Elements Activities Flow

RESEARCH METHOD

The type of this research is exploratory, because the objective is to explore or find out more about business model of food and beverage franchise in East Java. The data source used for this research is primary data source, gained from direct interviews with food and beverage franchisor in East Java and the target population in this research is food and beverage franchisor in East Java. Characteristic of this research's population is food and beverage franchisor in East Java who had run his/her business for at least 2 years and had at least 5 franchisee outlet. Sample in this research is food and beverage franchisor in East Java. There will be 6 (six) franchisor taken as sample. Depth interview is used to gain a deep view about the topic by asking questions that represent the elements of franchise business model to the respondent. As a result of the interview, there is a discovery we can find out through depth interview.

Data processing and data analysis are using in several steps. The first step in data analysis is the open coding to respondent's answer based on recorded interview transcript. This will make the tabulation and analysis easier. Code is given to respondent's answers that have been classified before. After the open

coding is done, data is tabulated using the tables that have been made before according to the variables of the questions and items through axial coding, then continued with selective coding tabulation to eliminate and reduce data from the axial coding. The last phase is to make an interpretation to find out about the food and beverage franchise business model in East Java.

RESULT AND DISCUSSION

A. BUSINESS MODEL ANALYSIS OF PT. X

PT. X is one of food business ran using franchise business system, started by the sharp business instinct had by Mr. Toni, the founder. After the product introduction phase to the market, Mr. Toni decided to expand the business using partnership system, and the market responded in positive way, makes it had 15 partnerships in East Java only in 6 month. The main attractor of this business is the set up fee is paid 50% and will be paid again after the opening of the counter. Total fee to open a new counter is IDR17.000.000. Although the response for this business is very positive, the location chosen by the partner to open the counter become one of some thing to consider. The factors involved in choosing a location are buying power of nearby people, rent fee and not in the fast lane. Location nearby school is also a potential one and one location should only have 1 counter, so they won't kill each other. The competitor's aspect is also one thing to consider, because if there's a competitor product, the business person won't be able to get maximum profit in that location. For the franchisee that picked wrong location, franchisor still give chance to find a new location and moved the counter to a better location before the contract runs out.

Franchisor's capability to develop this business is also coming from the consistent recruitment process, where the franchisor has already stated a qualification for the franchisee in recruiting employees. Although the recruitment process is done by the franchisee, the qualification for the human resources is stated by the franchisor, includes the qualifications are male or female, high school graduate minimum, single, maximum age 22 years old, and have good character. Beside the quality of the human resources, franchisor also gives on the job training to every new employee recruited by the franchisee and also gives coaching in the early days of their job to make sure that the employee is already trained and they can do their job well. The workshop is about product knowledge, the process to make pizza (according to the SOP made by the franchisor), and customer service and administration skill.

The salaries for the employees are the obligation of franchisee, means the amount of compensation and type of compensation is based on the franchisee's decision. Usually, franchisee set the type and amount of compensation and the number of employees based on the sales made. If the sales for a month reach IDR9 million, then the employee must be more than one person. It makes how much employee can be hired by the franchisee is based upon the sales made. As the target is mid-low class market, the promotion made by PT. X is from

brochures, banner, eye-catching cart's design and color, and the logo itself, which looked like Pizza Hut's, one get one promotion, and the free drink give away depending on the size of pizza bought by the consumers. The promotion makes a significant raise in sales, although these promotion systems are not yet applied on every franchisee. The creativity of franchisee is an important factor to design a promotion system that fit the location of the counter. Kinds of target customer is also a main factor in promotion system, because the promotion made must fit the situation and condition in order to raise sales. Fee for promotion of each counter is responsibility for the franchisee, makes franchisee's costs bigger. But the franchisor gives dispensation for the payment of material, ex. 1st to 10th day is collection period, the payment period is 15th day. There is no reward scheme if the franchisee pays on time because the collection method is already designed with interval payment method.

Beside the promotion made by the franchisee for their product in the counter, franchisor also made promotion to grow the network / partnership using magazine as media. But this effort has not meet expectation yet, because Indonesian's businessperson prefers successful testimony on the business first. Every fee paid to grow partnership becomes franchisor's responsibility. The price is decided by the franchisor and franchisee doesn't have the right to raise or to reduce the selling price.. This system is used to prevent the information asymmetry between franchisor and franchisee because each one is based upon the same financial system. Another way to raise the revenue beside the sales amount is reducing operational costs with the procurement on supporting material such as cheese, sausage, etc. But the standard of brand and quality is stated by the franchisor to keep the quality consistency of the pizza made.

Minimum requirement for sales amount in a counter is IDR9,000,000/month, because small micro business with small capital must have the ability to organize cash inflow and outflow quickly, to make difference of economic asset and debt is positive and low. Franchisee tend to use the BEP pattern, makes the lowest BEP as an interesting factor. Not only had the payment for royalty fee, PT. X as franchisor also applied monthly fee from the monthly sales amount. It's like applying secondary "tax" for the franchisee, reducing the profit significantly. And the franchisor gets more profit because the cost of goods sold and monthly fee becomes franchisor's right. While the payment for employee's salary is franchisee's responsibility. It means that the franchisor's revenues come from material selling, packaging, sales amount fee, and royalty fee. The success of this business is also the success of the franchisor's effort to put values in the business for the franchisee and the employees recruited by franchisee. The values are: (1) **Cleanliness**: The cleanliness includes the location/counter, the cart, and the tools and materials used, (2) **Neatness**: Franchisor requires every employee recruited by franchisee wears uniform and wear shoes. Neatness on food serving should be taken care too, because it makes the product looks tempting, (3) **Friendliness**: employee's friendliness can attract consumers

to buy the product and helps forming good relationship with the customers, makes it possible for the customer to do repeat buying, (4) **Honesty**: Employee's honesty to the franchisee/ owner is very important, especially in raw material usage in pizza making. Dishonesty can be done by reducing the amount of the material needed to make pizza, maybe reduce the amount of sausage or cheese with the purpose of individual profit can cause bad effect on consumers, especially on consumer's satisfaction, and will result in negative mouth to mouth promotion of the product.

In order to make these values well applied, the franchisor also takes part in the controlling section, because franchisor has to audit the performance of a counter at least once in a month. The audited factors are employee's discipline, product quality, and service quality. The success of this business is also affected by the franchisee's capability, especially franchisee's ability in managing the counter, includes planning the amount of product sold in a day, to prevent excess of material stored in inventory and not kept in inventory for too long, in order to keep the quality of the pizza. The maintenance for stored goods in inventory must be part of attention too, especially in material storage, to prevent expired stuff and the storage process is also according to the standard of franchisor to keep the quality of the product. Franchisee is also given the right to create new product based on franchisee's creativity. Franchisee can make diversification on the product according to the product line and discuss it with the franchisor first and had market test done. Hopefully, this option will help increasing the sales amount.

To make PT. X pizza still survive in the coming days, master franchise is a plan to develop partnership of PT. X pizza outside Surabaya, such as Jakarta or Bali, Borneo, or any other country in Indonesia. It helps in controlling counters outside Surabaya, and also saves the fee for transportation cost needed to supply raw material (bread made by franchisor) to every counter outside Surabaya.

Even though company X has already had a good management system, some failure did occur in this business. These failures are mostly caused by the inability of franchisee in managing their counter, wrong location for the counter, inconsistency, and lack of entrepreneurship spirit. But the franchisor can give help by giving guidance and counseling for franchisee to consult about problems happen in their counter, as long as the franchisee is still contracted to the franchisor.

B. BUSINESS MODEL ANALYSIS OF PT.Y

PT.Y is a fast serve drinks company using Franchise system in its progress. The name PT.Y is based on one of the main ingredients used in the product, the small hornbill. In Malaysia, the local people called the small hornbill as "Mata Kucing", because when it's torn, it looks like a cat's eye. The main product offered by PT.Y are variety of mixed drinks using ingredients such as the small hornbill, lou han kuo, and lump sugar. For some items, some ingredients are combined with tea. PT.Y is started by Sonny, a management consultant who had

strong will to enter the business area. Geographically, PT.Y's franchisor has only few outlets. It has two outlets in Kediri, another two in Surabaya and one in Jogja. The limited number of outlet built (no outlet outside Java Island) is because they still can't find a way to make the ingredients stayed fresh. Most of the outlet's development plan is focused in Surabaya, like opening an outlet in Jembatan Merah Plaza, Tunjungan Plaza, and Plaza Surabaya.

The current outlet is generally located in a mall, considering customers who like healthy living style prefer to go to mall than traditional outlets. In a mall, the product is relatively cleaner, compared to those outlets located beside the main road. The existing outlet is also giving the delivery services for a minimum order. To attract customers, PT.Y outlet is relying on its display's uniqueness. The uniqueness is created by the strong color combination, hopefully will attract people's view. And, the brand PT.Y is hoped to become a pioneer of healthy drink in the same business category.

Demographically, the target customer of PT.Y is quite wide, from kids to adult. And considering the affordable price, the customer of this product comes from any kind of class, the low-income class to high-income. To be remembered though, the low-income class usually buys the cheapest one, priced on IDR2000.

To create good bonding with the customers, franchisor set an affordable price. So, until now, there is still no special program to hold on to the customers. PT Y has 2J and 4J credo kept in the officer's heart. 2J means things to do (Do's), they are "Jujur" (honest) and "Jeli" means stay sharp while getting the product ready so it will suit the standard. And 4J are forbidden things (Don'ts), they are "Judes" (mean), "Jorok" (dirty), "Juaji" (prestigious), and "Jumawa" (arrogant). The core point is the officer must always serve the customers kindly, never look them down, do not divers people, and always keep environment clean. PT.Y tries to create value proposition to every target customer with creating and imply the core capabilities, create partner network, and organizing value configuration correctly. Next, the value proposition needs to be realized become customer relationship, and distribution channel that can cover every customers need. All of this process must be supported by solid financial aspect with cost structure and revenue streams as the main pillar.

As a service oriented business, PT.Y is relying on the performance of its sale outlet. Ideally every outlet needs only one employee and use part time employee in week end. The job of an outlet's employee can be classified in 3: (1) preparing the ingredients, like a cook, (2) mixing and, (3) just selling. Recruitment and selection process is brought by the franchisee, but the screening part is done by the franchisor with the strict selection criteria. The main criteria are: numeric ability, socialization ability, and self control ability. And there are physical requirement too, though it's not too important, like good looking. At least she must have inner beauty. The chance to hire man employee is not totally closed, but women employee are the first priority.

For part-timer workers, like college students, housewives, or any officer from another office that only work 5 days a week. The selection phase is begun from written test, interviews, on-the-job test and the orientation period for 1 or two weeks. In the beginning of the orientation, there's a coach who will help the employees. The assistance will be handled by the senior employees. Having past the orientation session and considered good enough, the employee will be contracted for a year. To improve employee's capabilities, PT Y makes workshop. The workshop material for outlet employee is about standard outlet operational such as serving ways and customer service. The salary system in PT.Y is not based on UMR (Regional Minimum Wage), but it doesn't mean that it doesn't worth it. The compensation system is based upon performance, like a bonus (incentive). With this system, cost for the human resource can be cut by reducing fixed cost and more variable cost component.

The compensation package for employees includes fixed salary, daily wage (for transport and lunch), and incentive. For incentive, in a well known area, it can be more than salary, plus daily wage (25% fixed salary, 25% daily wage, and 50% incentive). By experience, it's not difficult to reach that numbers. After the core capabilities formed by the explained process to create strong business infrastructure, it needs a solid partner network. In franchise business model, the main partner network is between franchisor and franchisee.

The business pattern of PT.Y is not pure franchise, but business opportunity. It's the partner who is interested to apply the PT.Y business first. The requirement is only to provide capital. After the payment, the shop can be opened, and the franchisee only needs to provide the employee. The first set-up cost is IDR12,5 million, said as the counter fee. But after they see the people's anima, it's raised to IDR30 million, and still sells well. It's because the set-up fee is IDR30 million, and no more royalty fee, so it's easier to reach BEP. Such a huge raise for such a small business shows that food and beverage industry is a prospective business for the future. And also, there's a guarantee that if you can reach the target of double IDR 550,000, the excess is the taken by the franchisee, not the franchisor. This gives advantage to both sides. For the franchisee, the excess will give more profit. For the franchisor, this incentive will motivate franchisee to their business better, so the sales will raise and franchisor will have more profit from the sales of the main ingredients, like syrup.

C. BUSINESS MODEL ANALYSIS OF PT.Z

PT.Z is a fast food business using franchise system in its progress. The main product offered by PT.Z is various kind of porridge, like Jakarta porridge, Sukabumi porridge, Manado porridge, and Champion porridge. And there are more variety added menu like Green Bean porridge and Black Sticky Rice.

PT.Z franchise is started from Pasuruan city by Suci Mardiko (Koko), an ex-employee of a foreign company who changed occupation to become an

entrepreneur. When starting the PT.Z business, the first capital is provided by a third party, who doesn't want to be posted, not from bank. .

With the franchise system, other than the Pasuruan, PT.Z has had about 25 outlets throughout big cities of Java, such as Probolinggo, Sidoarjo, Surabaya, Gresik, Malang, and Kediri. These days, this business keep growing, and even has begun to reach Middle Java's market potential.

The choice of the outlet location is generally in the area where people are crowded, like a campus, pharmacy, or supermarket with seats. The traffic flow nearby the outlet must not be speed way or one way traffic, because it can reduce the chance of people coming to the outlet. The location of the outlet can be either indoor or outdoor. Outdoor location always uses cart. The unique shape of the cart, attractive color, and the unique product logo is the attractive point for those who passed the outlet by. Every outlet must be at least 2 kilometers away. This means to eliminate the chance of cannibalize of each outlet. This distance restriction can be ignored if the target market of each outlet is different.

The target customer of PT.Z is everyone, because the price is affordable and the location of the outlet is not too elite. To be able to get customers, the marketing key of PT.Z is to offer porridge as an alternative food with the new paradigm that porridge is not just food for babies, sick people, or old people. Porridge is not only served for breakfast. Then a value proposition is offered that by only visit an outlet, customers can enjoy wide varieties of porridge with affordable price. To make good customer relationship, any discount given on the opening of a new outlet, also a service standard and customer service, all done to be able to know their customers more. PT.Z tries to create value proposition for its target customer by creating and utilize its core capabilities, creating partner network, and organize the value configuration correctly.

According to the PT.Z franchisor, their core capabilities are shred chicken, spices and the gravy and these ingredients are their key to form an entry barrier. These ingredients are produced in a workshop that employs 10 workers up until now. The production process in the workshop is quite simple and a position that needs some specific ability is the tester, who's responsible to taste the spices to make sure the composition is right. The human resource qualification for this franchisor is not too high, just junior high school graduate, and need not any special skill. The secret ingredients are always safe because every employee is specifically doing their job, so the employee won't be able to know the whole process. Because of repetitive job, the management try to ovoid boredom by doing a job rotation. The customer service is also an important part in an outlet employee's job. They have to be able to act kind and responsive to customer's need. The waiters or salesperson recruitment and selection process is done by the franchisee itself. PT.Z is quite commitment on employees development so they provide the time and fund to train up to 4 person for an opening of a new outlet. The material for the training is about the serving and customer service. For

workshop employees, the training session is not too hard because they only taught to do some simple work.

However, the franchisee selection is conducted by the franchisor with the specific criteria, includes entrepreneurship and total commitment upon managing business. To identify an entrepreneurship soul in a franchisee candidate is done by depth interviews and franchisee must have these characters, (1) creative, (2) innovative, (3) willing to learn, (4) has vision for the future, (5) strong will, (6) self confidence, (7) willing to take risk, (8) willing to work on the field, and (9) become an example.

In franchise business model, the relation of the franchisor and the franchisee based on the franchise contract and will expire in 5 years. And it can be extended by making a license contract. Up until now, the franchise is sold IDR17.5 million plus royalty, but on April 2008, it will be IDR20 million without royalty. The royalty system is removed because the fee is more than the royalty received. In this franchise system, the franchisor will provide facilities like location survey, employee's training, and the cart full loaded. And, for the promotion, franchisor gives brochures and cash back in the form of reservation for launching session. Franchisor will give recommendation for location choices and franchisee is free to choose if he rather take the recommendation or not. But all of the consequence must be taken by the franchisee. The main ingredients like shred chicken and spices is supplied from franchisor. Supply to places far from the existing workshop can uses general transportation vehicle, like travel, bus, or ship. The delivery is paid by franchisor and the usage of transport vehicle can reduce the cost for official carrier. This will guarantee the delivery of the material is effective and efficient.

The supply of material becomes one of the main revenue flows for the franchisor. For this part, franchisor tries to reduce the cost of the material using the economies of scale system, by adding more franchisee. The more franchisee got, the more material will be sold. To guarantee this, there must be new potential distributors. Therefore, the master franchise system is made. This system has been applied in Surabaya. Master franchise is a franchisee who buys 5 outlets at a same time. Then, some of the outlet is managed himself, and the other can be sold to another person. In this system, master franchise also role as the stockiest for PT.Z's material and get a special discount by the franchisor. And for the franchisor, this system will give more revenue and it can be accumulated to open outlets in new places.

Break Even Point is promised could be reached less than a year. Specifically, it's about eight or nine months. This is very realistic, considering the fast BEP target, six months, and daily revenue needed is only IDR300,000-IDR 400,000. But there is an indicator for business requirement operation, where the minimum revenue for a day must be more than IDR150,000.

With the revenue as explained before, the risk of funding can be reduced. And the 20% profit margin can still be applied, to cover the raise of the raw

material and this is done if it's allowed by the franchisor. More detail, just in case if the franchisee is not able to make profit, PT.Z offers the sell-back scheme to the franchisor, so half of the fund in the franchise can be taken back. This will give less risk for the franchisee. So far, the accounting controlling is not done, and more based on trust. This should be controlled though, as a problem in finance can affect the whole operation activities in the franchise.

D. HUMAN RESOURCES MANAGEMENT PERSPECTIVE

According to the result of the coding made to the research objects specifically, some topics are found with the grouping clarification with the explanation as written below:

1. Entrepreneurship

Naturally, the development of excellent entrepreneurship mindset in a franchisor or the franchisee is formed through experience. The businessman, whether act as the franchisor or the franchisee build most of their business foundation on food and beverage business, considering this kind of business is needed by the people in every condition, makes it possible to develop as long as human is still alive and need food. The experiences sharpen franchisor's business instinct and result in franchise business as an effort to develop business geographically. High spirit and strong commitment upon the business also helped to develop the business by forming business networking with franchise business as the media.

The commitment process inspiring the business is formed by the trust between in both sides. Basically, franchisee plays the role as current seller and franchisor as the main supplier. This bond helps the franchisor to control franchisee, makes it easier and transparent. In other words, as long as the cooperation still exists, franchisee will has high dependent rate on the franchisor.

Franchisee's ability in selling the product becomes the main basis for the business continuity. Sometimes, franchisee's failure in fulfilling the sales target cause the cooperation broke down. Generally, the entrepreneur profiles that can be seen from the cooperation or franchise business are (a) business spirit, (b) Trust; (c) Cooperation to work together (d) business orientation is based on profit for both sides.

2. Staffing Process

Human resources role in the franchise business is very strict, especially for the franchisor that pays attention to the human resources loyalty. It's because the secret ingredients and the goods supplied to franchisee must be well taken care and consistent on taste. Franchisor's employee is fully trusted and sometimes had family connection with the franchisor. While the franchisee's need for employees are configured by the franchisor.

This pattern is made for the mean to hide the competency bias of the human resources will not be able to seen, and considering the training is done by franchisor to make the profile and characteristic of the employees can be fully

contributed. Human resources selection is picked by the franchisee applying the criteria given by the franchisor. The amount of human resources given is based on the volume of sales done by the franchisee or how many counters franchisee will open. The minimum qualification of the human resources is not based upon a strict requirement, but to become waiter or salesperson must have (a) honesty, (b) service oriented, (c) neat looks, and (d) friendliness.

3. Human Resources Empowerment

Human resources empowerment began after the franchisee picks and choose the human resources to become waiter or salesperson. Training for the human resources is given by franchisor, and the training is focused on (a) product knowledge, (b) value understanding, (c) food serving and preparation technique, (d) quality service, (e) administration skill. The cost for training is included in the package paid by the franchisee when dealing the contract with franchisor.

Duration for the workshop is about 3 – 7 days and depends on the human resources ability to learn. Continuity for human resources empowerment must be done when there is a new development on the product which requires the human resources to learn new things again, especially on preparation and serving techniques.

4. Compensation System

Compensation system especially for the human resources worked as waiter or sales person is decided by the franchisee based on sales volume. This means to make the person will strive to serve and get customer as much as they can. For incentive consideration is depended on the franchisee.

However, franchisee has an obligation to obey minimum wage per region that agreed by local legislative officers and government. East Java include Surabaya has IDR 750,000 per month exclude insurance and health support.

CONCLUSION AND SUGGESTION

This research has focused on several franchise businesses and the franchisors are food and beverages industry, mainly on meat balls, syrup, snack, and European food. They located at East Java Province, and several of them have spread their businesses through other provinces in Java, Sumatra, and Kalimantan. Based on result and discussion, this research has several conclusions: (1) Franchisor can be considered as one whom willing to take risk (Risk Taking Person). Franchisors start their business with almost nothing but determination to do their business no matter what will come later, counting only on the business experience they had before, (2) The experiences sharpen franchisor's business instinct and result in franchise business as an effort to develop business geographically, (3) High spirit, trust, cooperation, business orientation and strong commitment upon the business also helped to develop the business by forming business networking with franchise business as the media, (4) Human resources role in the franchise business is very strict, especially for the franchisor that pays attention to the human resources loyalty, (5) The minimum qualification of the

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This research suggests several points that focus on the effectiveness of marketing strategy, and the sustainability of the industry. Franchisor should focus more on the advertising strategy to bring nearer the traditional Indonesian foods, and switch into franchises business. However, franchisor should also focus on health issues and rightful foods that came along with food and beverages industry.

Sustainability of the franchises industry is crucial in supporting both the franchisee and franchisor. Franchises industry support government program to decrease unemployment. Franchises industry also increase small and medium enterprises and the sustainability of the industry will support the needs for external financing. Therefore, franchises industry will have trickle down effect not only for franchisee and franchisor but also for supporting industry such as banking industry, logistic, packaging, food suppliers and advertising industry.

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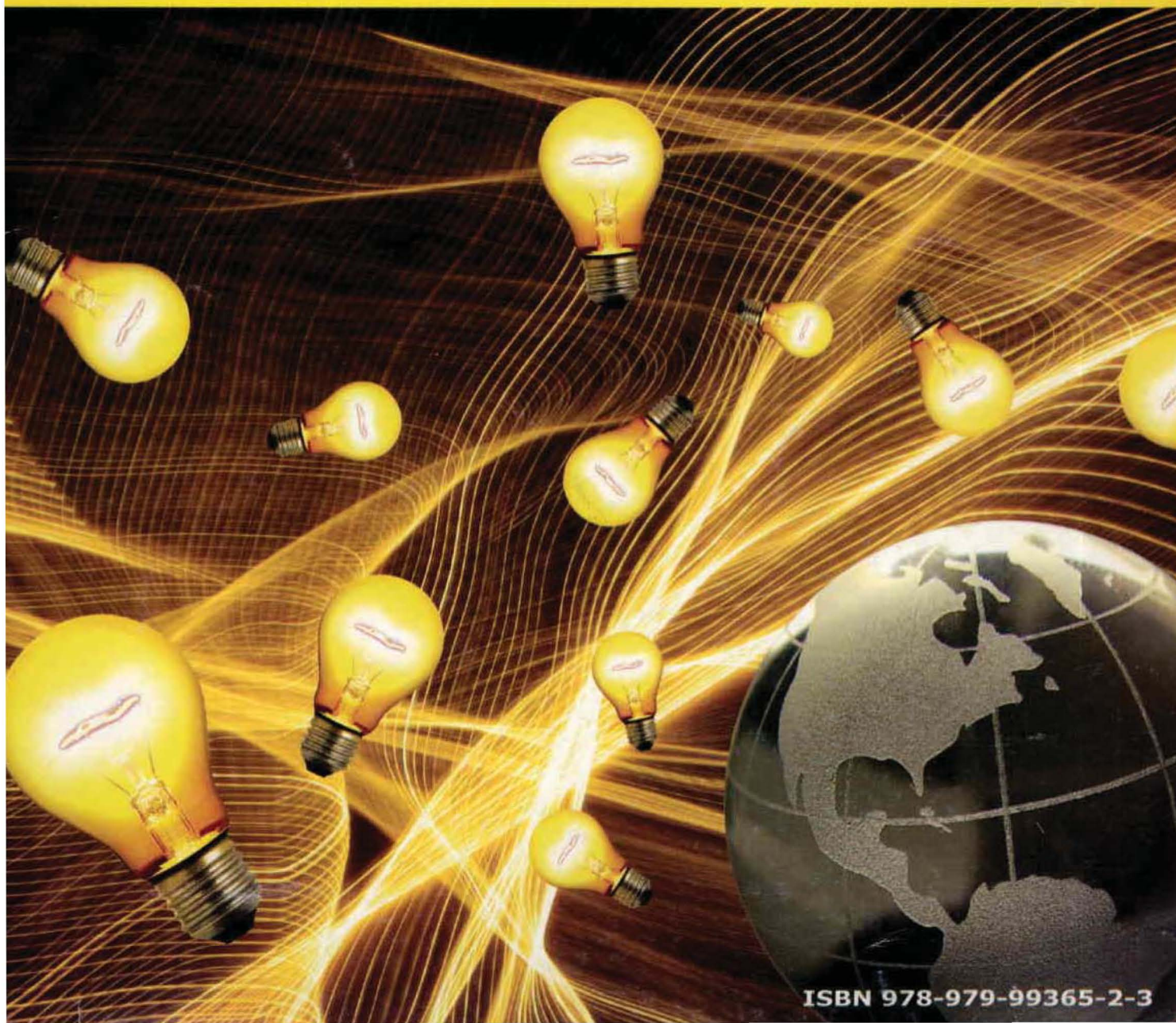
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THE 5TH UBAYA INTERNATIONAL ANNUAL SYMPOSIUM ON MANAGEMENT
DEPARTMENT OF MANAGEMENT, FACULTY OF ECONOMICS
UNIVERSITAS SURABAYA

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FOREWORDS

This proceeding is a compilation of paper abstracts submitted for **The 5th International Annual Symposium on Management** conducted by the Department of Management, Faculty of Economics, Universitas Surabaya. This year's theme of the symposium is **Fostering Corporate Innovation for Winning Competition in Domestic and Global Environment**.

This symposium is to provide a sharing forum for researchers, academics, and practitioners engaged in basic and applied research, single as well as multi- and inter-disciplinary studies, in all disciplines, not limited only in management field. Accordingly, the symposium is also opened for topics from other areas that are linked to or relevant with innovation in corporate management.

This symposium aims to bring together different points of view from academics, business practitioners, government agencies, and international institutions with the ultimate goal to share and disseminate various ideas and practices in innovating.

Finally, we hope that this compilation of papers, ranging from a conceptual work to an empirical research, can enrich our perspective in innovation and its application in creating higher level of competitiveness that leads to better quality of life for human beings. May God bless this effort and all parties – both personal and institutional – that have contributed in this event.

Surabaya, February 27th, 2008

The Editor

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