

International Conference: Quality and service sciences

16 th Toulon-Verona Conference

University of Ljubljana, Slovenia

29 and 30 August 2013

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Key words: franchisee, quality service, quality indicators, Human resource

Quality indicators for success and excellence of franchisee network

Introduction

Franchising is a distribution model that supports the creation of new businesses (franchisees). This can be a driving force for the economic growth of a country, such as Italy, hit by the economic crisis. For future challenges the new businesses should be virtuous and successful.

The success comes from the ability to innovate (product or manufacturing process), but also, from the relationship with the customer. The quality of customer service is central, because it can arouse competitive advantages. A high level of quality service, in fact, can point out a different and innovative use of the product to the customer, can stimulate new behaviors and can increase the market demand. For this reason it is essential that firms operate according to the principles of total quality. The quality must be pervasive for all franchisees, and consequently the human resource is crucial to its achievement. The human resource should be seen as a set of organized relations with a culture of quality. Therefore, it is essential informing and training the franchisees staff about the total quality standard behaviors.

Moreover, quality has to be fix in advance by set of specific quality indicators. Only through these quality indicators, franchisees can follow a growth path, and to be able comparing excellent quality to bad quality and define correct actions. As objective of our research, We propose a set of quality indicators for franchisees and their application to case studies.

Our work consists of three parts. In the first part we offer a brief description of the franchising in Italy. In the second we identify the factors leading to success in franchising and how the Total Quality is the glue. The third part proposes a methodology for the construction of indicators of perceived quality and of standard quality.

The franchising in Italy

The increase in the complexity of the environment resulting from the globalization of markets, from the technological innovations, the cultural shifts, and, especially in recent years, the

crisis looming on the economic system, created the end, even worse, the failure of many businesses and many difficulties to the birth of new ones.

In this situation the franchising system in Italy, according to data provided dall'AssoFranchising and by the Permanent Observatory on Franchising, held, indeed saw an increase, although there has been a decrease in turnover of 162 million euro, which, in particular, has been generated by the real estate industry.

Table 1 - Taxonomy of active networks in the Italian territory

| TAXONOMY OF ACTIVE NETWORKS IN THE ITALIAN TERRITORY | | |
|---|----------------|--------|
| | Absolute value | Val. % |
| ACTIVE NETWORKS WITH MINIMUM 3 STORES BETWEEN DIRECT AND FRANCHISING. Of which: | 938 | 100% |
| Italian networks | 838 | 89,3% |
| Masters of foreign franchisor | 66 | 7,0% |
| Networks operating in Italy only with franchisees, but with its registered headquarter in a foreign country | 34 | 3,6% |

Source: Rapporto Assofranchising Italia 2012 – Strutture, Tendenze e Scenari. A cura di Assofranchising. Realizzato ed elaborato dal Servizio Studi Assofranchising e dall'Osservatorio Permanente sul Franchising

Today we have in Italy 52189 franchising outlets. This business formula developed in all Italian regions (see Table 3). The franchising system in Italy covers different sectors, but, as can be seen from Table 4, the service sector is predominant. In addition, demonstrating the importance of the system, it is helpful to understand the turnover of the networks (see Table 5).

Factors for the success of the franchising companies in Italy

The reasons for the success of the franchising as a generator of new companies come from the possibility of ensuring an effective system of interrelations between the actors of the competitive system, and, within certain limits, with the socio-cultural-political environment. In particular, relations with the socio-cultural and political environment are becoming increasingly important for companies because their legitimacy as economic and social institutions depends on their ability to meet the expectations of many stakeholders. In essence, the socio-economic context is currently forcing companies to compete with more ethical behavior and taking more complex responsibilities as they involve many subjects at various levels, if not even the whole society. Franchisees in the franchising system are cells of the system with sufficient autonomy to be able to respond quickly to environmental changes, and at the same time to provide basic information to the franchisor on the demands raised by various stakeholders. The success of the network (franchisor-franchisee) also depends on the information system, which should provide the appropriate information and it must do so at the appropriate time.

The information system assumes fundamental importance for the franchisor as its distribution system consists of non-owned commercial establishments, but of legally independent entrepreneurs. This can lead to the risk that the wealth of information available at retail outlets is dispersed, or does not arrive in a precise and complete manner to the franchisor. Based on this, the franchisor must provide an information system that will enable him to obtain, if possible in real time, useful information that are available at the franchisees.

Table 2- Qualification of the franchising system in Italy on 2012

| BRANDS | NR. |
|--|-------|
| Brands operating in 2011 | 885 |
| Discontinued ¹ | - 40 |
| Not contacted ² | - 21 |
| In stand by ³ | - 32 |
| Closed ⁴ | - 8 |
| Bankrupted ⁵ | - 15 |
| Under the minimum requirements (< 3 stores) ⁶ | - 9 |
| New brands ⁷ | + 149 |
| Within the minimum requirements ⁸ | + 29 |
| Total brands operating in 2011 | 938 |

Source: Rapporto Assofranchising Italia 2012 – Strutture, Tendenze e Scenari. A cura di Assofranchising. Realizzato ed elaborato dal Servizio Studi Assofranchising e dall'Osservatorio Permanente sul Franchising

Table 3 - Stores in franchising, breakdown per regions

| REGION | STORES FRANCHISING 2012 |
|--------------------------------|-------------------------|
| Lombardia | 8.391 |
| Lazio | 6.336 |
| Sicilia | 4.524 |
| Piemonte | 4.504 |
| Campania | 4.281 |
| Veneto | 3.662 |
| Puglia | 3.408 |
| Emilia-Romagna | 3.326 |
| Toscana | 2.731 |
| Calabria | 1.817 |
| Sardegna | 1.579 |
| Liguria | 1.494 |
| Marche | 1.451 |
| Abruzzo | 1.435 |
| Umbria | 873 |
| Friuli-Venezia-Giulia | 831 |
| Trentino Alto-Adige | 521 |
| Basilicata | 506 |
| Molise | 376 |
| Valle d'Aosta | 143 |
| Totale punti vendita in | 52.189 |

Source: Rapporto Assofranchising Italia 2012 – Strutture, Tendenze e

¹ It is meant the networks who have discontinued the franchising, but continue the business with other types of contract.

² Networks disappeared on the official sources and with no contact by phone or on the web

³ Stand by These are the networks reformulating their business model and could abandon the franchising.

⁴ Total cessation of the business.

⁵ All the legally bankrupted franchisors.

⁶ In this category are included the networks who declare to operate in franchising, but who do not reach the minimum dimension (three stores among direct and in franchising).

⁷ I franchisor censiti per la prima volta afferiscono a quelle reti che sono state rilevate per la prima volta, ovvero non erano mai state rilevate, si tratta in buona sostanza di reti che si sono presentate sul mercato per la prima volta.

⁸ At least three stores among direct and in franchising.

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Table 4 - Sectoral Breakdown by Nielsen areas of the networks operating in Italy

| DIMENSIONE SETTORIALE | AREA 1 Nord-West | AREA 2 North-Est | AREA 3 Centre | AREA 4 South-Isles | FOREIGN NETWORKS | TOTAL Year 2012 | TOTAL Year 2011 | Difference 2012 on 2011 |
|--------------------------|------------------|------------------|---------------|--------------------|------------------|-----------------|-----------------|-------------------------|
| | YEAR 2012 | | | | | | | |
| Other Specialized Trade | 48 | 22 | 29 | 23 | 4 | 126 | 99 | + 27 |
| Household Items | 16 | 6 | 8 | 6 | 1 | 37 | 44 | - 7 |
| Articles for the person | 73 | 40 | 41 | 66 | 11 | 231 | 226 | + 5 |
| Specialized Food Trade | 13 | 14 | 10 | 9 | 0 | 46 | 37 | + 9 |
| Non specialized Trade | 10 | 10 | 6 | 1 | 1 | 28 | 31 | - 3 |
| Services | 161 | 93 | 107 | 83 | 17 | 461 | 432 | + 29 |
| Construction Maintenance | 2 | 2 | 1 | 4 | 0 | 9 | 9 | - |
| Industry | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - |
| TOTALE | 323 | 187 | 202 | 192 | 34 | 938 | 878 | + 60 |

Source: Rapporto Assofranchising Italia 2012 – Strutture, Tendenze e Scenari. A cura di Assofranchising. Realizzato ed elaborato dal Servizio Studi Assofranchising e dall'Osservatorio Permanente sul Franchising

An efficient information system, that is able to provide useful information at the good time, allows to the franchisor to elaborate the most appropriate strategic planning, with particular reference to the development of the network of franchisees. In particular, the elaboration of information should be directed towards total quality, that is towards an increase in the qualitative level of the service that the franchisee provides to the final consumer.

In fact, the critical element for success becomes the company's ability to be innovative and flexible, not only to comply with the environmental changes, but also to anticipate the same, and, when possible, to determine them.

In the franchising network decisions about the product are assumed by the franchisor, and they are aimed at finding a product able to satisfy the needs expressed by consumers in a target market. In addition, the franchisor determines a priori the services that must be associated with that product in order to render it more attractive than the product offered by competitors.

All this, along with the brand of the product, generates the differentiation of the franchisor. So the attractiveness of the commercial establishment depends on the choices made by the franchisor. In effect franchising is characterized by the "package" transferred from the franchisor to the franchisee. The brand represents the company's image, and often this is a commercial brand (supermarkets), at other times it is an industrial brand (retail perfumery, clothing, footwear, etc.), and yet in other cases it is a brand of services However, the brand wants to be the guarantee of quality of the product offered. In addition, the brand protects the franchisee in proposing a new product, because, if it is established and recognized, consumers will be more likely to buy, because sensitized by a promotional campaign carried out by the franchisor.

Another positive aspect of the franchising business concerns the management of stocks, that is rationalized by an increase in the speed of the rotation of stocks. In fact, a higher rotating speed of the goods produces a lower immobilization of capital, with positive effects on profitability. It is also useful to point out that the risk of unsold for the franchisee is reduced to a minimum, thanks to the result of market research conducted by the franchisor, and its ability to supply the store in very short time.

The franchising system produces financial benefits as well with regard to the procurement function, as the bargaining power exercised by the franchisor, resulting from the purchase of large quantities of goods, can lead to reduce the price to a level favorable to the franchisor and accepted by the supplier.

As we have stated, there are different elements that define the franchising as a system that can generate competitive advantages for networks, benefits that may result from lower costs, or the ability to differentiate the product.

It seems useful to recall that the competitive advantage of any company depends on the value that this can create for their customers (Porter) and its legitimacy in the environment in which it operates. Companies survive and develop only if they operate in synergy with the environment. Basically a franchising network, in order to be able to grow and last forever, must develop a strategy to satisfy both the conditions for a lasting economic balance, and the social expectations, i.e. the expectations of all the stakeholders. Within the franchising coexist autonomous, but interdependent, activities. Therefore it may be observed the onset of clouds of responsibility, spread vertically between franchisors and franchisees, and horizontally among the franchisees. As a consequence an ambiguous situation is created, in which individual performance cannot be evaluated in front of a clear, stable, and sharp assessment criterion. So refined and evolved techniques of managerial control shall be applied, which allow to plan, schedule and control in the most appropriate manner. They should not rely solely on economic and financial parameters. It is a question of methods that give emphasis to the empowerment of each component of the network, leading to the widespread involvement of all franchisees. This ensures the protection of all the factors of competitiveness and the growth of an autonomous capability of finding solutions to the problems. Finally these methods will stimulate behaviors leading to the entrepreneurial excellence.

Total Quality and Franchising

From all this it follows almost automatically that the franchising should operate according to the principles of Total Quality. The quality, in this context, must be defined not only relating to the features of the product or the service, but must be pervasive in any business / corporate function and must invade the field of the interactions of the company with the society. In fact, when the companies base management, organization, management on the total quality, they must require ethical and moral behavior that go beyond the respect of the law and the regulations. The importance of working in quality for the franchising depends on whether it represents value in a broad sense, created and enhanced for all stakeholders. For these reasons it is desirable that companies adopt a strategy of quality, aimed to increase their competitiveness,

since this leads to obtain a cost advantage, an advantage of differentiation, and finally, the ability to give effective responses to the demands of stakeholders.

Operating in total quality generates for franchisors and franchisees a series of advantages, among the most important we can list the following.

- improvement of the corporate image (of primary importance in a franchising network)
- Increase of the customer satisfaction
- increase of the satisfaction of franchisees
- Increased satisfaction of all staff of the franchising network
- reduction of waste, both tangible and intangible
- build-up of a more effective and efficient organization
- an increase in market share
- increase in profits

To build a total management based on quality it becomes necessary for a network of franchising to follow a well defined path, whose milestones are listed here below.

- awareness of the whole human resource of the franchising network to total quality
- training of the human resource
- formal assumption of quality principles by the human resource
- ongoing dialogue and flow of information between franchisor and franchisee. All information should be directed to the quality, and more specifically to an increase in the level of service that the franchisee provides the end customer. A service of a level of quality not appropriate to the prestige of the franchisor undermines the image at the consumer, leading to a reduction of the economic capital as a result of the depreciation of the intangible asset represented by the brand
- construction and monitoring of a battery of quality indicators

In this paper we consider one of the said milestones, that one relating to the construction of a set of quality indicators for the franchisee.

A quality strategy should comprise:

- determination of quality objectives for the product / service in order to maximize the value of the offer for the end customer
- provision of a system of distribution of the product / service functional to meet the needs and expectations of the end customer.
- generation of customer-oriented behaviors and attitudes across the network

In particular, as regards the first point, it seems useful to remember that for improving the quality of offer to the market, the priority is to be able to measure the present level of quality. Therefore the company should be equipped with a system of standard indicators used for the task to measure quality. Only with that it can be made sure to do not create gaps between the various levels of quality, that is between:

- Planned quality (standard quality)

- offered quality (actual quality)
- the quality desired by the consumer (expected quality)
- the quality perceived by the consumer (perceived quality)

Any gaps between these levels have an impact on customer satisfaction and, as a result, lead to a loss of competitive advantage of the network. The deviations may result from various causes, such as incorrect assessment of the client's expectations, or incorrect translation of those expectations in the quality attributes of the product / service, or lack of or improper communication addressed to the customer about the product / service, or even incorrect execution or lack of professionalism in the staff charged of relationships with the customer.

Only by measuring and comparing it is possible put in place the corrective actions aimed to move towards total quality.

In franchising the franchisee is the interface through which the franchisor provides information to the end user, and therefore it is useful to propose a set of indicators regarding the quality of the franchisees and prepare an index of the quality perceived by the end customer.

Table 5 - Turn-over of the franchising networks

| NO. SEGMENT | SEGMENT | TURN-OVER | RATIO % |
|-------------|--|------------------|---------|
| 6 | GDO FOOD | € 6.993.240.000 | 30,06% |
| 26 | SPECIAL PRODUCTS AND SERVICES | € 2.207.747.000 | 9,49% |
| 2 | CLOTHING MEN WOMAN | € 1.496.108.000 | 6,43% |
| 29 | FAST FOOD | € 1.419.703.000 | 6,10% |
| 4 | TOURISM - TRAVEL AGENCIES | € 1.403.061.400 | 6,03% |
| 20 | UNDERCLOTHING | € 1.347.566.165 | 5,79% |
| 3 | REAL ESTATE AGENCIES | € 957.523.800 | 4,12% |
| 1 | CLOTHING CHILD | € 747.097.400 | 3,21% |
| 10 | FOOTWEAR-LEATHER GOODS ACCESSORIES | € 738.237.200 | 3,17% |
| 17 | GDO - NON FOOD | € 734.377.000 | 3,16% |
| 7 | OFFICE ITEMS - STATIONERY | € 491.107.950 | 2,11% |
| 19 | INTERNET - TELEPHONE | € 484.349.700 | 2,08% |
| 24 | OPTICS | € 467.188.700 | 2,01% |
| 27 | MISCELLANEOUS - DECORATIVE OBJECTS | € 390.841.000 | 1,68% |
| 30 | POSTAL SERVICES - PRINTING - COMMUNICATION | € 390.813.800 | 1,68% |
| 23 | FURNITURE | € 363.495.600 | 1,56% |
| 16 | JEWELLERY | € 358.750.500 | 1,54% |
| 9 | AUTO - MOTO - VEHICLES (PRODUCTS & SERVICES) | € 343.146.100 | 1,48% |
| 28 | RISTORATION - PUBS | € 322.168.500 | 1,38% |
| 25 | HAIRDRESSERS (PRODUCTS & SERVICES) | € 229.723.000 | 0,99% |
| 11 | CENTRI ESTETICI - BENESSERE - PALESTRE | € 228.612.500 | 0,98% |
| 12 | COSMETICS - PERFUMES | € 209.284.000 | 0,90% |
| 22 | BOOKSHOPS | € 176.327.000 | 0,76% |
| 18 | COMPUTERS - VIDEO - PHOTO | € 151.457.100 | 0,65% |
| 15 | ICE CREAMS - STALLS | € 146.981.800 | 0,63% |
| 13 | HERBS - HEALTH - NUTRACEUTICAL | € 146.807.600 | 0,63% |
| 14 | TRAINING - CONSULTANCY | € 109.027.200 | 0,47% |
| 8 | NURSERY - TOY AND GAME | € 75.575.000 | 0,32% |
| 5 | HOTELS | € 74.835.000 | 0,32% |
| 21 | LAUNDRIES | € 57.328.000 | 0,25% |
| | | € 23.262.481.015 | 100,00% |

Source: Rapporto Assofranchising Italia 2012 – Strutture, Tendenze e Scenari. A cura di Assofranchising. Realizzato ed elaborato dal Servizio Studi Assofranchising e dall'Osservatorio Permanente sul Franchising

Indices of Perceived quality

The measurement of the quality perceived by customers is often carried out through monitoring done by specialized companies.

The indicator is obtained through the formulation of so-called "equation of satisfaction". This operation is not without difficulties, as it is necessary to seek the evaluation criteria adopted by customers, taking into account that these are variable and dynamic. The definition of the equation must refer to a specific segment of the market and to a certain product / service, and can be expressed in the following way.

$$S = s + L_A p_A + L_B p_B + L_C p_C + \dots + L_n p_n$$

S indicates the level of satisfaction, which can be between 0 and 10

s represents a constant of satisfaction that cannot be explained by the elements A, B, C, \dots, n

A, B, C, \dots, n are the elements or attributes of the product / service that represent the components of the global satisfaction

$L_A, L_B, L_C, \dots, L_n$ are satisfaction levels achieved by each element and are represented by a scale of values between 0 and 10

$p_A, p_B, p_C, \dots, p_n$ are the weights that are assigned to each element

The levels of satisfaction can be measured and represented numerically by means of a system of technical indicators (see Table 6)

Table 6- Technical quality indices based on the monitoring of complaints

| DESCRIPTION | PURPOSE | FORMULAS |
|--|--|---|
| Average complaint rate in the month | This index is determined to sensitize the franchisee to the problem and to prove to the customer the interest for its requirements | $\frac{R}{C} \times 100$ R : no. monthly complaints C : no customers in the month |
| Average response time | This index measures the number of days needed to answer to the complaints. It measures the level of attention at the customer | $\frac{1}{C} \sum_{i=1}^R g_i$ g_i : no. of days passed to answer to the i-ith complaint |
| Fraction of the complaints due to delivery delays | These indices highlight the complaints associated to explicit phenomena of non-Quality | $\frac{R_r}{R}$ |
| Fraction of the complaints due to inefficiencies of the services | | $\frac{R_s}{R}$ |
| Fraction of the complaints due to defects in the product | | $\frac{R_d}{R}$ |
| ... | | $\frac{R_x}{R}$ |

Battery of standard quality indicators for the franchisee

These indicators should represent the quality standards to which every franchisee should conform in such a way that the network is able to grow and remain competitive. They shall not be imposed by the franchisor, but rather must be shared with the franchisee, since the active involvement and sharing of responsibility with the human resource is a crucial factor for the creation of value. The human resource is able to develop new behaviors, to recombine its skills and relationships according to the modifications undergone by the market. The franchisee may be the bearer of redesign and development capabilities for the entire network, and may express performance excellence. It is not man as such, but it is his work that has to be assessed: These indicators can be used to take the road towards improving the quality and the ability to measure it. Empowering the human resource, interact with the individual to motivate the commitment to achieve improvements for himself, and, consequently, for the network, leads to innovative capabilities and achieves excellence. Collaboration and cooperation become necessary for the

horizontal and vertical coordination of the franchising network. In order that the quality becomes the criterion on which are based the business relationships, a change is needed in the behaviors assumed in the network, i.e. it is necessary the creation of a new corporate culture.

Before building the standard of quality, namely that point around which is anchored the policy for optimization of quality for the franchising network, it would be useful for franchisors and franchisees to identify by themselves what are the strengths and weaknesses of the network in relation the principles of Total Quality.

According to the principle of focus on the customer (customer satisfaction) a strength can be represented by maintaining continuous contact with customers, while a point of weakness may be constituted by the absence of reactivity to complaints, or by the habit to provide poor or insufficient information about the use of the product . Features like those must be parameterized and referenced in the index of standard quality of the product / service of the franchisee.

With regard to the propensity to take on responsibilities, a strong point can be represented by high level of delegation that is granted to employees for solving unforeseen problems that may occur during normal operations. A weak point of the network can be represented by centralization of decision-making power, and this can lead to leave open and unsolved problems until someone did not intervene by central direction, and therefore, ultimately to create dissatisfaction among customers.

As for the detection and measurement there is a strong point when the company detects any significant phenomenon on time in order to be able to intervene quickly in order to restore what had been budgeted. A point of weakness in this regard can be represented, for example, by not knowing the times actually utilized to respond to a complaint.

Again, with respect to the systematic support, a strong point is given by the estate of training courses, the use of systems of incentives and reward systems, both of economic and non-economic nature. There is a weakness in the eventual absence of rewards for those who undertake initiatives addressed to correct phenomena of non-quality.

Finally, with regard to continuous improvement, a strong point is represented by the development of new methods to improve working conditions, and a point of weakness is the absence of a stable channel for consulting customers on the quality level of services.

Upon completion of an analysis of the kind sketched above it will be possible to proceed to the determination of the indices of quality standards that have to be introduced into the franchising network. During the construction of this battery of indicators it should always kept in mind which are the requirements that each indicator must respond.

The minimum requirements that an indicator of quality standards must possess are:

- *Reliable*: i.e. ability to measure properly the elements that affect the total quality
- *Relevant*: exact representation of the element of quality that we want to evaluate
- *Reproducible*: must express the agreement of more subjects in the measurement of the same element at different times
- *Sensitive*: ability to grasp the changes that occurred on the element of quality

- *Specific*: ability not to be changed from what is extraneous to the element considered

Each indicator must be associated with standard values: only this way one can reliably determine when a malfunction is ongoing.

All quality indicators must be reported in a single register, which can be defined as the quality manual of the franchisor, and must be brought to the attention of all franchisees. The definition of these quality indicators can be formulated by a work group, whose members should possess the required knowledge, and have the strategic vision, needed to promote total quality. The group has important tasks that go beyond the construction of the battery of indicators, and include support and consultation granted to franchisees, in such a way that they accept and internalize the indicators and use them to improve the quality.

As an example, we propose schemes of quality indicators for the franchisee:

- quality of the business
- quality of logistics
- quality of service

Standard indicators of Business Quality

The quality of the business is commensurate with various elements, among which the most important is the turnover. For an analysis of turnover reference should be had to the various market segments identified by the franchisor, and to the territory of reference, which can be more or less wide. In addition, the profitability ratios of the franchisee are observed, as long as the value of the cash flow. In particular, it is useful to remember that, at the birth of the franchising relationship, it is taken into account of:

- the determination of the basic standard of finance
- the debt ratio of the franchisee
- financial planning for the development of the system of management of working capital

Determination of the basic standard of finance

The index must focus on the relationship between the cost of capital and the structure of the point of sale. In essence, the internal rate of return of the franchisee must not be lower than the rate of return on invested capital. This financial standard is determined by calculating the rate, which we will call R , of actualization of the expected operating income of the franchisee. It can be obtained by the following relationship.

$$R_e = C_t/C_p(R_o - R_i) + R_o$$

C_t is the loan capital of the franchisee

C_p is the risk capital of the franchisee

R_o is the discount rate of the operating income for the outlook of the average year

R_i is the discount rate of the financial years expected

Thus it follows that the cost of capital R for $R_e > R_o > R_i$ depends on the financial structure of the franchisee, i.e. on the ratio C_t/C_p and therefore the on the risk of it (Colombi F.).

As a reference for the quality of the business one should take into account the increase in the economic value of the franchisee. As has been demonstrated, to maximize the economic value of the franchisee it must be minimized the cost of working capital, and this may happen for an interval of values of the ratio of debt C_t/C_p that represents the optimal financial structure of a selling point.

With the example below in Table 7 it is demonstrated the value of the operating cost of capital for different levels of financial leverage, being given the expected discount rate of operating income ($R_i = 32\%$) and the discount rate of financial charges ($R_e = 32\%$).

With this example we show that the best financial structure among those presented is that one that consists of an amount of venture capital to € 590,000 and shareholders' equity of € 260,000: in fact, the cost of the associated operating capital amounts in this case to 18.92% .

This example on the quality of the business wants to prove that each index to be used for the standard must be carefully designed and constructed in relation to the characteristics of the point of sale.

Table 7- Variation of the operating capital cost with the debt ratio

| LOAN CAPITAL C_t | VENTURE CAPITAL C_p | DEBT RATIO C_t/C_p | OPERATING CAPITAL COST R_o |
|-----------------------|--------------------------|-------------------------|---------------------------------|
| 600 k€ | 400 k€ | 1,50 % | 24,80 % |
| 530 k€ | 260 k€ | 2,03 % | 18,92 % |
| 605 k€ | 260 k€ | 2,88 % | 20,42 % |

Quality Standards for the services

The Table 8 shows the components of the service that the franchisee must provide to the end customer. The said service is given by the sum of n elements, for each one of these a range must be determined that identifies the minimum and maximum levels of quality. The franchisor will identify the standard of quality for each parameter that he intends to offer to the final customer. The franchisor should make this choice with the utmost care and should investigate which will be the most suitable choice for every franchisee.

Table 8- Definition of standard quality

| Element | Parameters | Alternatives | Standard |
|--|---|--|---|
| Waiting time to be served | Per type of point of sale | <ul style="list-style-type: none"> • Wait zero (self service) • Wait 5' max | Minutes per type of operation |
| Waiting time at the checkout | Per type of point of sale | <ul style="list-style-type: none"> • Wait 15' max in case of special deadlines (discounts holydays) | |
| Opening hours of the store | Per type of point of sale | Rigid schedule two periods Rigid schedule continued Flexible schedule Festive opening | Determination of the schedule |
| Reception | Per type of point of sale | <ul style="list-style-type: none"> • Self-service • Consulting service | Determination of the reception services |
| Diversification of the services | Per type of point of sale | Delivery at home Gift packaging | Determination of the diversified services |
| Professional quality of the personnel | Knowledge of the product Knowledge of the alternatives Ability to guide the choices of the Customer | <ul style="list-style-type: none"> • Performance evaluation by the hierarchy • Monitoring of complaints | Definition of the evaluation grid |
| Attitudinal qualities of the personnel | Courtesy Accountability Friendliness | Performance evaluation by the hierarchy Monitoring of complaints | Definition of the evaluation grid |
| Quality of the aspect of personnel | Clothing Style Age | | Definition of a standard corporate image |
| Quality of the localization | Number of windows Number of customers per day | Proximity to public transport stations (distance) Parking for private cars (no. places reserved for the store) Public parking (no. places) | Definition of the expected values |
| Quality of premises and equipment | | No. of seats No. of dressing rooms No. of checkout desks | Definition of the expected values |
| Appearance of the premises | Cleanliness Order | Frequency of cleaning | Definition of the expected values |

Conclusions

With this work it was desired to highlight the potential for growth of franchising and identify the most promising strategies to promote this growth.

The strategy identified was found to be the implementation of Total Quality. In particular it has been shown that if we really want to improve, we shall be able to measure the quality, both from the technical and economical point of view. We have proposed for this purpose a series of quality indicators, which should be applied for each point of sale, because it is through customer satisfaction that the company's success is generated. (Hallowell 1996, Nilsson L., Johnson M.D., Gustafson A., 2001).

The joint action of all the considered factors gives rise to what is called the spiral of innovation and growth. Only by this way can trigger the virtuous process that can restart our economy and create jobs.

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