

THE FLEXIBILIZATION OF THE RELATIONSHIP BETWEEN FRANCHISOR AND FRANCHISEE: A CASE STUDY OF TYE YES RENT-A-CAR, A VEHICLE RENTAL

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INTRODUCTION

This case study aims to present the experience of the setting up of the Yes Rent-a-Car brand operating within the car rental industry. Its executives and founders' experience enabled them to create a new franchising model that aligns flexibility and organizational guidelines, thus generating an open relationship between franchisor and franchisee.

Common sense tells us that innovation is crucial to company development and consolidation. Product, process and technology innovation is usually the theme researchers and managers mostly deal with over new business models, services and company management. However, innovation in these areas is commoner and more profitable than people think. Cases of companies such as Azul Linhas Aéreas, Buscapé and Peixe Urbano highlight the positive results that paradigm changes can bring to a business.

Within such a context, Yes Rent-a-Car is an innovative company that has brought to market a more flexible concept of the franchising system, a system that is known for its strict guidelines and relationships. The company's executive director and managing partner was interviewed and a literature review was carried out about the theme and the company.

FRANCHISING SYSTEM AS AN ALTERNATIVE TO GROW AND CONSOLIDATE BUSINESSES AND BRANDS



Figure 1 - The store front of a Yes Rent-a-Car franchisee. Source: Press release (2012)

A study carried out by Brazilian Franchising Association (ABF, 2012) stated that Brazilian franchising market amounted R\$ 88 billion reais in 2011, which shows how important franchising is to dynamics of domestic economy.

According to literature on the is theme, franchising is a business model that seeks to strengthen companies and brands by setting up networks that will lead to better competitive conditions within the market (VANCE et al., 2008; PAIVA, 2002; PAULINO, 2010). Thus, franchising has expanded

throughout the years and shown itself to be an efficient option in the quest to consolidate brands and gain market share.

Paiva (2002) states that franchising highlights the setting up of company networks where a franchisor seeks to expand the business quickly while a franchisee seeks safer investment opportunities. "Franchising system corresponds to a networked business expansion that adds other partners to the main company to improve the commercialization of its product or services" (PAIVA, 2002, p. 2). Therefore, this business model currently represents an important tool for both parties to compete in the market.

Overall, the relationship between franchisor and franchisee is based on the control exerted by the franchisor through setting up standards, guidelines and practices that the franchisee must follow. Such behavior is usually strict and leaves no room for customization and/or changes. Usually, a franchisor will stipulate management assistance such as training programs, operations system, internal processes, brand, advertising pieces, and others, while a franchisee will commit to following the guidelines and the model set by the franchisor (NORTON, 1988).

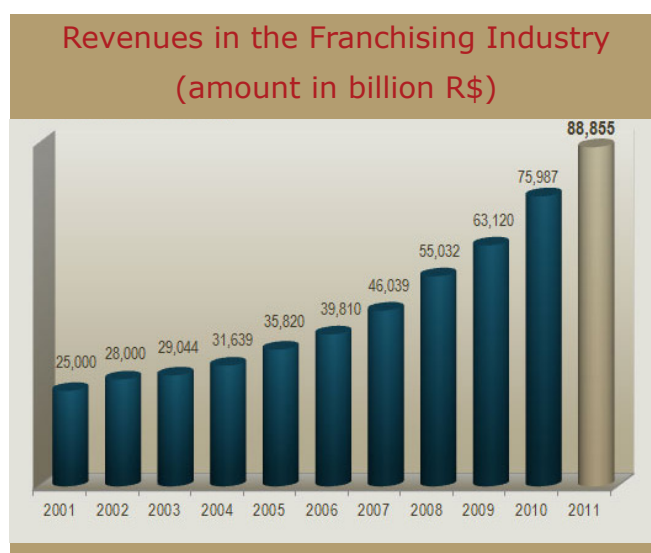
The relationship between these two companies is seen as a hybrid one, since the franchisor plays the double role of business owner and employee (PAIVA, 2002)¹. According to Vance et. al. (2008, p. 61), "thus, franchisees own the business they have invested their own capital in, and they follow the standards set out by the franchisor".

The franchising model was launched in 1850 when the Singer Sewing Machine Company decided to expand its business by allowing other companies to commercialize its brand, Singer. Other companies from different industries (such as General Motors and Coca-Cola) followed the same example to expand their businesses and strengthen their company's brand (PAIVA, 2002). This model is still recent in Brazil and its adoption began to expand in the 1980s. Brazilian Franchising Association (ABF) was founded in 1987 and it focuses on developing this business model in Brazil. It was in 1994 that the law that regulates franchising in Brazil was signed (VANCE et. al., 2008).

¹É importante ressaltar que, na franquia, o franqueado não assina um contrato de trabalho com a franqueadora, e sim um contrato de franquia. Portanto, legalmente o franqueado não possui vínculo empregatício com a franqueadora, como disposto na Lei 8.955 de 1994, que regula as franquias no Brasil.

Within such a context, it is possible to identify significant growth in the option for the franchising model in Brazil in the last decade. According to data supplied by Brazilian Franchising Association (ABF, 2012), franchising system has grown by over 300% in the last decade. In 2001, 600 franchises were identified in Brazil, and this number had soared to 2,031 by 2011. Such growth is in step with the growth in revenues achieved by the franchising system in Brazil in the last decade. Below, Graph 1 shows revenues evolution between 2001 and 2011.

As can be seen, current revenues amount to over three times the revenues for 2001. According to Vance et. al. (2008, p. 60), this model has become the safest investment option for Brazilian entrepreneurs due to the lower risks involved in opening a business, as it follows a tested model that has proved to be an efficient one. On the other hand, the companies that own a brand find franchising to be a more accessible strategy to expand and strengthen their brand at lower implicit costs.



Graph 1 - Revenues in the Franchising Industry – Brazil, 2001-2011.

Source: Brazilian Franchising Association, 2012.

THE FRANCHISING MODEL SETUP BY YES RENT-A-CAR

Yes Rent-a-Car was founded by three partners in 1994 to set up a new rent-a-car franchise whose model would be different from existing ones. The partners were dissatisfied with the franchising model practiced by other companies on the market and decided that it would be better to create a new network using another concept, a more flexible system that would not be characterized by the imposition of guidelines.

In this new model, the franchisor would not have its own shops and so it would enjoy freedom of action and guidelines while, at the same time, it would need its franchisees' experience to guide its decision-making process, which would build a democratic relationship between franchisor and franchisees.

Partners invited Mr. Raimundo Nonato, an industry executive since 1994, to manage and to setup this franchise. That was the beginning of a long job of preparing contracts, guidelines and creating the brand. Yes Rent-a-Car was first set up in São Paulo and moved later on to Belo Horizonte. It currently has over 80 franchisees in Brazil with a fleet of over 3,000 cars. It has received an award as the best vehicle franchise of the year for three times, an award bestowed on it by Pequenas Empresas e Grandes Negócios magazine, and in 2012 the company received the Brazilian Franchising Association seal of excellence in franchising for the fifth year running. Such recognition stems from the innovative franchising model created by the company, a model that melds democracy and flexibility to this concept.

Raimundo Nonato, executive director and managing partner at Yes Rent-a-Car Franchising, believes that the franchise's secret rests on three innovative actions in this industry. The first one is the fact that it does not own proprietary shops, and so the company dedicates itself exclusively to managing the franchise and not managing shops. Other rent-a-car franchises have their own shops, which the director believes can become a factor of imposition. According to Paiva (2002), franchises usually stem from the desire of entrepreneurs who wish to grow in the market and in other regions by opening their business to the participation of third parties through either direct or indirect payments. Therefore, as stated by Raimundo, this measure is one of the secrets that makes Yes Rent-a-Car a successful franchise, that is, dedicating itself exclusively to managing the franchise and the innovative practice of not having its own shops, which is the opposite of what can be observed for other franchises in the industry.

Another innovative measure adopted by the franchise was the lack of standard measurements and rates, but "think globally and act locally in terms of rates", that is, setting up flexible rates. As it seeks to understand and meet the reality and the demands of each venue, Yes Rent-a-Car does not practice single rates, but rather sets them according to the reality of the region within which each unit operates. This is a point that highlights the differentiation between Yes Rent-a-Car the other franchises whose structure is defined by the franchisor, as well as their management, their control and even their pricing process.



Figure 2 - Advertising material to publicize receiving the seal of excellence in franchising.
Source: Press release (2012).



Figure 3 - Yes Rent-a-Car franchisees' annual meeting.
 Source: Press release (2012)

To encourage its franchisees to take part in the decision-making process, Yes Rent-a-Car has set up a Franchisee's Board. The Board acts to set out franchising guidelines and to discuss the objectives and the projects that will be followed by the franchise. According to Raimundo Nonato, although it is a consulting board it has the characteristics of a deliberation board. "That is because discussions are carried out together with the franchisor and our objective is to meet the demands and needs of those who work at the front office", states the executive director.

Paulino (2010) stresses that if they are to remain competitive and attractive to franchisees, franchisors must internalize franchisees' experience and make use of such learning to restructure and adapt their franchise's management system so they can modernize and enhance their initial model. As regards this issue, Lindblom and Tikkanen (2010) remark that franchisees' experience and knowledge are very valuable because they present an entrepreneurial vision of the business and they are in direct contact with consumers, which makes them innovative agents who are ready to implement changes.

FINAL COMMENTS

This case study stressed how important it is to investigate and report on innovative experiences as regards business and services models. Such experiences do not portray the impact of new technology development, but they show how changes in management and business model paradigms can open up new perspectives and generate opportunities for companies.

Yes Rent-a-Car experience portrayed in this paper makes it clear that the innovation in services implemented by the institution afforded the market a more flexible perspective of the franchising concept and of the relationship between the companies involved. It was by using innovative tools and practices in their business model, such as setting up a Franchisee's Board and dedicating the franchise exclusively to managing contracts and adopting local and regional guidelines, that it was possible for Yes Rent-a-Car to guarantee its growth within an industry controlled by large and traditional companies while consolidating itself as one of the largest car rental companies in the industry in its 18 years of existence.

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