

International Franchise Acquisitions And Stakeholder Interests: Mail Boxes Etc. Case

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ABSTRACT

This paper applies stakeholder theory to an international franchise after its acquisition altered the balance of the franchise's multiple stakeholder groups and presents the case of Mail Boxes Etc. (MBE) after the franchise was acquired by United Parcel Service (UPS) to illustrate the effects on various stakeholder groups.

INTRODUCTION

This paper extends stakeholder theory to an organizational form where it has not been applied before – to franchises - and it illustrates the effect that a financially troubled franchise can have on its stakeholders, particularly following its acquisition by another firm. The case of Mail Boxes Etc. (MBE), a U.S.-based international franchise offering shipping and packing services to consumers and small businesses, will be used to highlight the application of stakeholder theory to franchising during a time when its parent company filed for bankruptcy, and was later acquired by a supplier, United Parcel Service (UPS). The company's history, franchise structure and customers will be used to illustrate the effects of the acquisition on each stakeholder group, and issues about the sustainability of stakeholder interests in the acquired franchise will be addressed.

LITERATURE REVIEW

Stakeholder Theory

The notion of stakeholder management was first discussed in the strategic management literature by Freeman (1984). Stakeholder theory maintains that firms have expanded their priorities to address more than just maximizing shareholder wealth, and it exhorts decision-makers to consider the interests and needs of all stakeholder groups within an organization. Stakeholder theory recognizes that an organization faces several groups whose interests and well-being are vital to achieving a firm's overall objectives. While this is quite likely the case for franchises, the theory has yet to be applied to this organizational form. The theory has been used to analyze corporations and their responsibilities to constituencies other than merely its shareholders (Kochan & Rubinstein, 2000); it has been applied in the context of corporate social responsibility (Stern & Barley, 1996), to non-profit organizations and even as a guide to decision-making in state-owned enterprises (Arens & Brothers, 2001).

Kochan and Rubinstein (2000) identified several conditions that, in their view, were required for a firm to be a stakeholder firm: 1) top managers' values and leadership styles must embrace the importance of stakeholders, 2) potential stakeholders must provide critical resources or assets to the firm, and the value of these assets is tied to the firm's performance, and 3) stakeholders must accrue enough power within the firm so that their needs will be just as likely to be tended to as investors' needs. While Kochan and Rubinstein's argument centered on employees as stakeholders, these conditions are quite likely to be required of franchisees as well in order for the franchise firm to be deemed a stakeholder firm.

Marketing Theory

The branding and corporate reputation literature also emphasizes the importance of a firm's internal stakeholders (employees) and suppliers, but encourages firms to address their needs through branding. Hatch and Schultz (2003) focus on the importance of the corporate brand, while Vallaster (2004) calls attention to the internal brand. Marketers have long maintained that a strong corporate brand is necessary to create a strong image for existing products and subsequent line extensions (Brown and Dacin, 1997; Ind, 1997). Hatch and Schultz (2003) note that more recent competitive pressures have changed the focus from product branding to an emphasis on corporate branding. Corporate branding facilitates new product introductions and extends a company's positive image across its multiple product lines. This is accomplished through corporate (as opposed to brand) positioning. Balmer (2001) also addressed the importance of branding to various stakeholder groups: customers, investors and employees; and Vallaster (2004) reiterated the importance of the internal brand to an organization's employees, stressing that the internal branding "allows an organization to align its internal processes and corporate culture with those of the brand."

FRANCHISING AND THE MAIL BOXES ETC. CASE

The franchise business format exists when the owner of a business (a franchisor), grants a license to others (franchisees) to use the franchisor's name, product or service and associated goodwill for a specified period of time. The franchisee commits to paying the franchisor an upfront fee for the use of the franchisor's intellectual property and royalty payments (based on a percentage of franchisee revenues) on an on-going basis throughout the duration of the franchise agreement. In return for the initial payment and the royalty revenue stream, the franchisor commits to supporting the franchise network through product/ service development, advertising support and promotional expenses.

Mail Boxes Etc. has been in existence since the early 1980s when it sold its first franchise in California. The MBE franchisor developed the business model as an alternative to postal services and proceeded to sell the concept to franchisees throughout the U.S., Canada, Europe, Latin America and the Middle East seeking to target its services primarily to home office and small business owners. The UPS and MBE network is currently the world's largest non-food franchise. Retail sites total more than 5,300 worldwide (approximately 3,500 in the U.S. and 1,800 outside the U.S.) with a presence in over 40 countries. Each UPS or MBE franchisee offers a range of services targeted to final consumers and small business customers, including photocopying and facsimile services, postal service and mailbox rentals, and packing and shipping services through domestic and international courier services.

While the MBE franchise prospered throughout the 1980s and 1990s, the interests of all major stakeholder groups were deemed to be vital to the company's success and as such, marketing and management strategies were designed keeping franchisee, customer and supplier needs in mind. In 1998, the franchise continued to grow with U.S. franchises approximating nearly 3,000 outlets by then. However, one year prior to achieving the 3,000 retail store landmark, the franchise was acquired by U.S. Office Products, a conglomerate that actively sought office products and service companies. After nearly twenty years in existence, MBE had become a "cash cow" and was an attractive target for a company that sought to penetrate the office supplies sector through an aggressive acquisition program. U.S. Office Products' excessive acquisitions soon led the company to file for bankruptcy and the MBE franchise operation began to make decisions that favored their corporate interests, rather than giving equal importance to the interests of all stakeholder groups. One example of this practice took place when MBE management decided to allow franchisees to negotiate individually for courier service rates. This new practice alienated many franchisees since they were not likely to obtain as favorable a rate as the franchisor had in the past when they were able to leverage the buying power of all franchisees. This decision was viewed by some franchisees as a pivotal moment in MBE history since it appeared that the franchisor no longer had the franchisees' best interests in mind.

In the first quarter of 2001, United Parcel Service (UPS) purchased all MBE assets from U.S. Office Products. The MBE acquisition was attractive to UPS because it gave UPS a significant retail presence, a higher profit margin sector than the greater bulk of their business. (About 80 percent of UPS shipments are made by business-to-business customers, often shipping at high volumes, but at the same time commanding steep discounts.) The MBE acquisition meant that UPS at that time potentially had access to 3,400+ retail stores in the domestic United States that

could be re-branded to incorporate the UPS brand name and give UPS the visibility it sought in the retail sector, plus an additional 1,600 stores outside the U.S.. Only U.S. franchisees were presented with an incentive program aimed at encouraging individual franchisees to re-brand their stores and convert them to UPS stores. This strategic decision implemented in 2003, created three stakeholder groups where previously there had only been one: 3,000 newly branded UPS franchisees in the U.S., 400 MBE franchisees (which had retained the original retail store brand) in the U.S., and approximately 1,500 MBE franchisees outside of the U.S. (that were not given the option to rebrand into UPS stores). The franchise headquarters' attention in all likelihood would be focused on the UPS re-branded outlets. This left the franchisees that had opted not to re-brand questioning what marketing support their MBE brand would receive given that UPS appeared anxious to promote its newly re-branded stores (as evidenced by the UPS-centered advertising campaign implemented across the U.S. after the rebranding was under way).

Adoption of the UPS store brand by former MBE franchisees resulted in some confusion and discontent among other stakeholder groups as well: customers and suppliers, particularly since they believed that their interests were no longer important to management at the franchisor's corporate headquarters. Prompted by what was deemed to be a rebranding effort that promoted their major competitor, FedEx opted to discontinue servicing the newly branded UPS stores. Many retail store customers favored FedEx courier services (accounting for approximately half of all shipping volume in some individual stores), but this service would no longer be available to them after adoption of the UPS store brand. While FedEx's competitive action, refusing to service UPS stores did not trouble the franchise corporate headquarters, it was likely to have had an adverse effect on individual franchisees – at least in the short term - particularly if they had relied heavily on FedEx business in the past. In the long term, UPS stores were expected to compensate for the loss of FedEx business with increases in their UPS volume. However, since rates charged to each franchise were negotiated individually, if margins on FedEx volume were higher than margins on UPS volume, then the UPS franchisees would also be adversely affected by this move.

Following the acquisition and rebranding, the UPS/MBE worldwide network had given rise to multiple stakeholder groups: individual franchisees in the U.S., the majority of which were now called UPS stores, and some of which retained the MBE brand; area franchisors in the U.S. and in another 40 nations who were responsible for growth and development of a part of a country; master franchisors, whose role it was to lead and manage the growth of the MBE network in one or more countries, and others, including customers and suppliers.

Customers, too, may be confused about the effect that the acquisition and the rebranding will have on them. On the one hand, customers in the U.S. readily recognize the UPS corporate brand (Harris Interactive), yet may associate it solely with UPS' role as an intermediary in the shipping and package handling business, rather than with the retail operation. UPS' expectation is likely that customers' positive attitudes toward the package handling business will be extended to the retail operation as well. However, confusion may also result because not all MBE stores have adopted the new UPS brand. There has been a 90% conversion rate of MBE franchised stores into UPS stores, however, the remaining 10% have chosen to remain MBE stores. Not only is this a potential source of confusion for UPS customers, but it also poses a particularly difficult situation for the franchisor and its franchisees. UPS, the franchisor, collects royalties from its franchisees which are later used to promote and advertise the new brand. It is unclear how, if at all, MBE franchisees in the U.S. (who are also under contract to make royalty payments to UPS) will be supported. UPS may also use the royalty requirement with MBE stores to leverage its strength in an effort to convince franchisees to adopt the UPS brand so that they will reap the benefits of a corporate-sponsored advertising and promotional campaign. What kind of support will the MBE stores receive? Or will they become a forgotten stakeholder group? After all, a power shift occurred from the moment that the franchise was bought by a supplier. The marketing challenges stemming from the acquisition became even more acute when UPS revealed that only franchisees in the U.S. would be given incentives to convert their retail stores into UPS stores. Retail stores in all markets outside the U.S. remain branded as "MBE" stores. As a result of this strategic decision, the UPS stores – as they are widely known in the U.S. – will be branded differently from their non-U.S. franchisees which will continue to use the MBE brand name. It is unclear what effect this dual branding strategy may have for the international (i.e. non-U.S.) franchisees as the UPS parent company will be focusing on building brand name recognition in the U.S. In today's highly competitive and globalized environment, firms often strive to present a unified corporate image worldwide, yet UPS' current strategy runs counter to this.

CONCLUSION AND DIRECTION FOR FUTURE RESEARCH

The MBE/UPS case highlights the difficulties inherent in stakeholder management, particularly as conflicting interests of multiple stakeholder groups must be balanced. This problem was heightened when a firm – or in this case, a franchise – became the target of an acquisition. Since not all firms agree on what comprises a stakeholder group – and much less on how best to manage its stakeholders - acquisitions of franchise operations may make for a particularly difficult stakeholder management environment.

The case of MBE and UPS illustrates that royalty payments made under contract by the franchisee to the franchisor may not be used in support of the brand for which it was originally intended, especially after an acquisition and rebranding effort. From a practical point of view, this indicates that three stakeholder groups were created after the acquisition and rebranding effort where originally there had only been one: UPS branded stores, MBE stores in the U.S. and MBE stores on the international level. However, only one of those groups (the UPS branded stores) is receiving the type of marketing and advertising support that franchisees might expect. What the MBE franchisees receive in terms of advertising support from the corporate (UPS) office is likely to be minimal compared to the support that the UPS-branded stores receive, despite the fact that royalty payments for all franchisees (regardless of their brand) remain at the same percent of sales.

From a broader perspective, though, the three branded strategy may be confusing to multiple stakeholder groups for if a brand permits organizations to align its internal processes and corporate culture, then it implies that the message and decision-making may differ across differently branded operations, or franchisees as is the case here. The corporate culture alone, for each brand may differ markedly; let alone the internal processes. Furthermore, if the multiple brand strategy is confusing to the organization's internal stakeholders, this strategy may prove to be even more confusing to the external stakeholders (i.e. the customers and suppliers), and in the long term may weaken the organization, or franchise overall.

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