

# The Characteristics of Operations Decisions in Micro Scale Franchise in Indonesia (Case Study in Semarang and Yogyakarta)

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**Abstract**— The number of micro businesses/enterprises in Indonesia are more than 90% of the total. In Semarang and Yogyakarta, there are about 60% of micro-scale enterprises in the food sector. Some of them are in franchise businesses/enterprises. However, the implementation is only 25 brands that constituted in a written agreement between franchisor and franchisee. A total of 57 brands agreements are assigned verbally, even 18 brands assigned without any agreements at all. This paper presents the results of research funded by the General Directorate of Higher Education in Indonesian that examines the design of operation system for micro scale franchise, especially the implementation of operations decisions in the micro-scale franchise in food and beverage sector.

**Keywords**— entrepreneur, franchise, micro scale business/enterprise, operations

## I. INTRODUCTION

THE latest data formally published by the Indonesian Ministry of Cooperatives and SMEs through [www.depkop.go.id](http://www.depkop.go.id) noted that the number of businesses in Indonesia in 2011 amounted to 55,211,396 units and in 2012 at total of 56.53956 million units. From these data, in 2011, at total of 54,559,969 units belonged to the micro scale, and 602,192 units belonged as the small scale. While in 2012, that number increased to 55,856,176 units for micro scale units and 629.418 for small scale units. The proportion of micro was more than 90% of the overall scale of the business within two years.

Based on initial survey carried out on the micro-scale businesses, they choose to be micro scale entrepreneurs because they cannot work in the formal sector, as well as due to the lack of knowledge and education. To be able to sustain their lives, they must work independently in order to get money. Due to the lack of capital, the micro-scale business becomes an option.

These data also represents the conditions in Semarang and Yogyakarta. Both, Semarang and Yogyakarta are the capital of the province of Central Java and Yogyakarta Region. The social and economic conditions in both cities are relatively

similar. The proportion of micro businesses in the two cities are also more than 90% compared to other businesses as the whole.

Initial survey of micro-scale business conducted at the beginning of the study showed more than 60% of enterprises that engaged in food and beverage [1], [3]. This sector has been chosen by the entrepreneur because the repetition rate is relatively high and relatively rapid the turnover of capital.

On the other hand, it also identified that the type of business existed the micro-scale business in the form of a franchise. This type of business, mostly, has been chosen by entrepreneur because of the production process is easy and definite (42 respondents). Thus, they just need to run it. However, this establishment has not received guidance from the Ministry of Cooperatives and SMEs in Indonesia so far.

The cause is that a franchise business is managed by the Ministry of Trade, but the extent of the agreement is clear and legally efforts. In general, the franchise with a clear business agreements and legal, business scale has been included in medium and large scale. Thus the presence of micro-scale franchise has not managed adequately.

Therefore, this article presents the results of research that shows the general characteristics of the franchise management of micro-scale operation in the city of Semarang and Yogyakarta. Each city is represented 50 brands franchise food sector as a sample (total sample is 100 brands). Purposive sampling, in-depth interview and observation are the methods used in recruiting data.

The operations decisions concept is used in this study that includes the application of the product specifications, production processes, facilities and procurement of raw materials, the location of outlets, and product innovation. These decisions indicators were adapted to the conditions of the micro-scale franchise [2]. In addition, it also identifies the existence of a warranty from the franchisor.

## II. LITERATURE REVIEW

### A. Franchise

Franchise is a special rights owned by an individual or entity to a business system with a distinctive feature in order to market their goods and / or services that have been proven to work and can be used and / or used by other parties [8].

From the definition of the franchise involves two parties, they are the franchisor as an entrepreneurial business owners,

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products, and patented operation management. In its development, the franchisor can provide guidance to the franchisee (the buyer of the franchise). While the franchisee that is selected or approved by the franchisor, runs a business, and provides reward in a certain period of time. Franchisees will certainly bind certain obligations to the franchisor.

In the Indonesian Regulation [8] on the franchise, it is mentioned that the franchise should include a clear agreement. This agreement covers the rights and obligations of both franchisor and franchisee. Therefore, ideally, it attached the clear sanctions in the event of a breach in the fulfilment of rights and obligations.

#### *B. The Criteria of Indonesian Business Scale*

Under The Indonesian Act Number 20 of 2008 on Micro, Small and Medium Business/Enterprises in the SME criteria are as follows [9]:

1. Criteria for Micro Business/Enterprises are as follows:
  - a. have a net worth of at the most Rp50,000,000.00 (fifty million rupiahs), excluding land and buildings; or
  - b. have annual sales of at the most Rp300,000,000.00 (three hundred million rupiahs).
2. Criteria for Small Business/Enterprises are as follows:
  - a. have a net worth of more than Rp50,000,000.00 (fifty million rupiahs) up to at the most 500,000,000.00 (five hundred million rupiahs) not including land and buildings; or
  - b. have annual sales of more than Rp300,000,000.00 (three hundred million rupiahs) up to at the most Rp2.500.000.000,00 (two billion and five hundred million rupiahs).
3. Medium Business/Enterprises criteria are as follows:
  - a. have a net worth of more than Rp500,000,000.00 (five hundred million rupiah) up to at the most Rp10,000,000,000.00 (ten billion rupiahs), excluding lands and buildings; or
  - b. have annual sales of more than Rp2.500.000.000,00 (two billion and five hundred million rupiahs) up to at the most Rp50.000.000.000,00 (fifty billion rupiahs)

#### *C. The General Problem of Indonesian Micro Business*

In managing its business, the entrepreneur of micro scale enterprises faces many general problems. They are [5]:

1. Limitations working capital and/ or capital investment
2. Difficulty in obtaining raw materials with good quality and reasonable price
3. Limitations of technology literate
4. Limitations of qualified human resources
5. Limitations of information, especially information about the market
6. Difficulty in marketing included in the distribution

These problems may differ in intensity; it is tied to the type of products or markets served, region or location and small and medium business sector itself.

### III. GENERAL PROFILE OF RESPONDENTS

Of the 100 micro-scale franchises in the field of food as respondents in this study, 62 franchises have products in the field of food and the remaining 38 produce beverages. Most required start-up costs for the provision of the franchise that ranges from 3 to 10 million rupiahs (72 brands).

Refer to the explanation by interviews, the cost of procurement of these efforts largely to the cost of procurement of physical outlets, main and supporting facilities, as well as a number of materials for initial production activities. It means that the cost of a permit or license to be able to become a franchisee is included in the overall cost of the initial.

The price per unit, majority (80 brands) ranged between 5 thousand rupiahs to 15 thousand rupiahs with an average production cost less than 5 to 10 rupiahs per unit. While the price of 20 brands have less 5 thousand rupiahs. On the whole ranges of the average cost of production per unit of this product, businesses gain the benefit from between 10% to 25% per unit of product.

### IV. OUTLETS LOCATION AND FACILITY

Locations and facilities of franchise outlets in the field of food and beverage are very important factor, because it will be a physical attraction for consumers. Due to the general condition of the micro-scale franchise is relatively similar in both cities, Semarang and Yogyakarta.

TABLE I  
CROSS-TAB OF OUTLETS LOCATION AND FACILITY

Procurement of outlet facility	Provision of outlet location		
	By franchisor	By franchisee	Proposed by franchisee, approved by franchisee
By Franchisor	5	9	58
By Franchisee	0	1	0
Both	0	15	12
Total	5	25	70

From Table I, the majority provision of the location is proposed by franchisee with approval by franchisor and the procurement of stores throughout the facility are provided entirely by the franchisor that is as much as 58 brands. This condition indicates that the provision of outlets entirely is the responsibility of the franchisor. This responsibility for the running of the business in the location provision, indicates the attention of the franchisor.. This means that the franchisor also conduct feasibility studies on the strategic aspects of the attractiveness of the market. In addition, the franchisor also assess the potential competition of similar products on the proposed location of the franchisee.

The provision of the location based on the proposed franchisee to the franchisor that facilities procurement from both franchisor and franchisee, only a portion of as many as 12 brands. In this case the facilities provided by the franchisee is generally limited to supporting facilities, the equipment is relatively easy to obtain and is not a major facility. Based on interviews, supporting facilities in question is a knife, scissors, spoons, and plastic bags and food wrappers / drinks to take away.

The proportion of the location provision is fully determined by the franchisee, where the provision of the majority of its outlets are provided in part by the franchisor and the franchisee there is as much as 15 brands. Provision of location entirely by franchisees showed that the franchisor is responsible for most limited physical facilities. Franchisees can choose a location based on its own studies and comfort in running the business. Comfortable context here is very relative, because it can be based on its proximity to the residence franchisees, as well as the location of the area is already known previously by franchisee.

#### V. PRODUCT SPECIFICATION AND RAW MATERIAL PROCUREMENT

As a physical product, food and beverage require a clear specification of the product, not only the content but also the packaging. It will greatly affect on how the production process and also on how raw materials are established and maintained.

TABLE II  
CROSS-TAB OF PRODUCT SPECIFICATION (INCLUDE PRODUCTION PROCESS)  
AND RAW MATERIAL PROCUREMENT

Raw material procurement	Provision of product specification (include production process)			
	By franchisor	By franchisee	By franchisor, but permitted to be modified	
By franchisor	54	0		1
By franchisee	0	0		7
Both	13	0		25
Total	67	0		33

Table II shows the cross-tab between product specifications (including the production process) and the provision of raw material procurement. Most of the product specifications set by the franchisor and the procurement of raw materials must be set by franchisor that is equal to 54 brands. It shows the absolute operations in running the franchise business that set by franchisor. In addition, this provision is also the basis of the business license from the franchisor to franchisee.

The second largest proportion is 25 brands; it indicates that the specification is established by franchisor, but franchisees can modify it without reducing the main characteristics of both the content and packaging products. In this case, the combined procurement of raw materials also includes a portion of the franchisor and the part of the franchisee. Raw materials, which are provided by the franchisees, are generally raw materials that are not durable and relatively easy to obtain from suppliers, such as traditional markets. Such materials are generally in the form of fresh vegetables (food sector) or some kind of sugar (beverage sector).

From table II shows that none of the product specification is fully determined by the franchisees, as well as its raw material. This condition is a representation of the franchise that should be in common. It means the franchisor which sets all major aspects of the business or a franchise system.

#### VI. PRODUCT INNOVATION

At a total of 97 brands showed a warranty from the franchisor. Warranty covers assistance to franchisees when they are facing difficulties, in technical assistance for the use of facilities and management, and repairing of damaged facilities, where 46 brands of the amount of the franchisor do not allow an innovation after a certain period of time. Based on the interviews, the time ranged from 6 months to 1 year. In addition, at a total of 40 brands can be done with the approval of the franchisors without waiting for a certain period.

Innovation is intended for expansion and anticipation of market dynamics. In this case the franchisor still emphasizes their main product characteristics, so innovation is intended as a complement. But on the other hand, a product innovation permits expansion that can also be interpreted as there is no guarantee that the product specifications are defined and generated resilient relatively long appeal.

Of the 97 who have warranty outlets, only 9 brands cannot be innovated at all. On the other hand, there is no guarantee that the outlets are also relatively few; they are 3 brands only.

#### VII. FINDINGS

Refers to the description of respondents above that represent 100 brands of micro-scale franchise in food and beverage sector in Indonesia, these are the research findings:

1. The main reason for the respondents choose to format franchising as the process of production is easy and definite (42 brands).
2. The initial cost of procurement franchise is around 3 million rupiahs to 10 million rupiahs (72 brands). As 80 brands have range price per product between 5 thousand rupiahs up to 15 thousand rupiahs, and they get benefit around 10% up to 25% from the price.
3. The provision of outlet location commonly proposed by franchisee and approved by franchise (70 brands), and 58 of them manage the procurement facility outlet that entirely done by the franchisor.
4. A total of 67 brands, which franchisors fully determine product specifications, 54 of them manage the procurement of raw materials that entirely done by the franchisor.
5. Most franchisor (97 brands) gives warranty to franchisees that covers assistance for franchisees when facing difficulties, technical assistance for the use of facilities and management, and repair of damaged facilities.

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