

## **Study of a Business Model Related to Cultural Franchises and the Educational Industry in Taiwan- A Case Study of Creating Mental Arithmetic -- CMA**

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**Abstract:** *The cultural and educational industry has been quite prosperous in Taiwan's recent past. These cultural and educational institutions now encompass large-scale facilities and include some use self-use residency with small capital. Because of rapid changes in society and the trend toward having fewer children, the numbers of student enrollment has decreased markedly. However, in order to increase relative market share, large-scale cultural and educational institutions aimed at children make use of their advantages to recruit franchisees and establish branch schools. The current study is based on the related literature of culture and education industries in Taiwan useful to investigate the Creating Mental Arithmetic - Creating Great Minds (CMA) business franchise model. It would also expand oversea markets and increase management performance for franchises involved in such enterprise.*

**Keywords:** *Business Model, Franchises, Culture and Education Industry*

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### **1. INTRODUCTION**

Creating Mental Arithmetic - Creating Great Minds (CMA) was established in Southern Taiwan in 1984 as a talent-training institute based solely on mental arithmetic. CMA initially developed as the leading mental arithmetic educational brand through the efforts and under the management of its founder, Jiang-qing Dai. Regrettably, CMA did not take advantage of the best market turning point and alter its management strategy to respond to market change. As a result, operational difficulties occurred and profitability showed signs of stagnation and decay.

To seek an operational breakthrough and to deal with the financial difficulties at that time, Mr. Dai determined that the internationalization of traditional mental arithmetic might present a novel way to survive in the marketplace. As the domestic business in Taiwan started to shrink, he made greater efforts to internationalize. Due to Mr. Dai's relative inexperience and unfamiliarity with foreign market environments, he experienced considerable difficulties with entering prospective international markets. These setbacks and difficulties were suffered until the first profitable branch opened in Hong Kong in 2002.

Looking at the development of CMA, similar branches have been established in Hong Kong, Singapore, Malaysia, India, Sudan, New Zealand, Australia, Nigeria, Guangzhou, Suzhou and Xiamen, and Taiwan. In terms of the overall operational situation, some branches have developed quite well while some still need improvement. As such, there are some problems which remain to be solved in order to promote CMA business in China and throughout international markets. Little

research has been done on the business model of combined culture and education industry franchises in Taiwan. Recent studies have shown that considerable political/economic risks and continuously changing social conditions may have lowered commitment and entry modes (Aliouche, & Schlenrich, 2011). Therefore, the current study, which is based on related literature specific to the culture and education industry in Taiwan and franchises would prove useful further investigate CMA business franchise models to make up for the lack of current literature. It would also provide a basis to expand overseas markets and increase management performance for these franchises.

## 2. LITERATURE REVIEW

Franchising has become one of the most influential forms of sales channeling during the last several decades (Beheler, Norton, & Sen 2008; Dant, 2008). Many studies have shown that many service industries apply franchises to the business mix, such as hotels, restaurants, convenience stores, real estate, education, and health care organizations. According to a survey conducted by the Department of Statistics in the Ministry of Economic Affairs (MEA), the total sales derived from chain store operations reached US\$ 64 billion in 2010, which accounted for 50% of overall retail- and restaurant-industry sales. The number of franchisors grew 4.16% to 1,779, while the number of franchisees grew 3.01% to 112,714 from 2009 to 2010. Franchising is seen as an identifiable business model. It helps specific franchisees located in different regions to offer services or to sell products with dedicated administrative support, accounting and financing support, operational know-how, technologies, and brand authorization (Justis, & Judd, 1989). From the franchisee's perspective, attaining a mature operational model offers a renowned brand to quickly lower marketing and R&D cost, and to cutting operational risk (Stanworth, & Curran, 1999). From the franchisor's perspective, market share and revenue increases quickly through economies of scale expanding through franchising (Shane, 1998). If a franchise works well, it is a win-win situation for both parties. Franchisors offer the business value of an established brand name and the operational know-how through franchisee education and staff training. Franchisees pay an up-front fee and accomplish the franchisor's obligation through contractual agreement (Liang et al., 2013). This study also proposed that franchises offer higher profitability and that risk-aversion will be created if a good relationship is built up between the franchisee and franchisor (Grandner, 2006). It is a common phenomenon when the franchise is new to the market that profits are expected to be both low and unstable. Franchising affords the design necessary to deliver protection against business risk and to provide a competitive advantage over competitors (Liang, et al., 2013). In the mature stage, a franchise generally yields high-yield and stable profit, a scaled economy, and operational efficiencies within the well-established brand. Also the franchisor becomes more attractive to potential franchisees because of stronger resources and competencies instead of solely for its protection features (Liang, et al., 2013).

This study shows that brand commitment and marketing support for the brand possess the main influences of getting franchisee support for the franchisor's brand. It can build brand equity beneficial to the franchisor and generate motivation for the franchisee to invest in the franchisor brand (Merrilees, et al., 2013).

The opportunity for franchising indicates adaptation according to local market conditions (Batonda, & Perry, 2003). Franchisors are able to perform their partnership roles effectively through the establishment of training and operational support functions and to obtain the franchisees' confidence in their franchise capabilities. A positive correlation may also occur between cultural sensitivity and trust (Altinay, 2006; Doherty, 2009; Sørensen, & Sørensen, 2001). The mutual level of communication between the two parties is entirely what augments the effect

of role performance on trust. When franchisees establish a sense of trust in the franchisor on the basis of their role performance and cultural sensitivity, franchisees are more likely to express a satisfaction with franchising (Chiou, et al., 2004). In sequence, this satisfaction is likely to reduce conflict between the franchisors and the franchisees, and it may lead to the sustainment of long-term relationships. These parties should also choose to maintain a flexible approach to local markets in order to adapt cultural differences that may arise. Open and translucent communications at the pre- and post- stages of the partnership is important to assist learning between franchisors and franchisees, to offer franchisees a clear sense of direction, to boost relationships, and to prevent controversy (Altinay, et al., 2014).

In the past four decades, with strong incentives such as the reduction of trade barriers, saturation of domestic markets, communication and transportation benefits, foreign economic opportunities, favored currency convertibility, franchise firms have been afforded expansion opportunities for their businesses to go into foreign markets (Justis, & Judd, 2003; Lafontaine, & Leibsohn, 2005; Alon, 2006; Aliouche, & Schlenrich, 2009).

Greater markets have better potential returns and offer economies of scale that provide a suitable reason to attract more franchisors (Rothaermel, et al., 2006; World Economic Forum, 2007). The franchise firm may choose to adapt to the global environment at the expense of their own resources and strategies in a time-efficient and cost-effective way with the relative importance of various determinants to select the optimal international expansion target countries. Franchise networks can be considered as a community of entrepreneurs, each of which has aspirations toward gaining autonomy and innovativeness (Davies, et al., 2011). However, much of the time the franchisor relies upon the franchisee to perform at expected levels and within rigidly specified guidelines; while at other times, the franchisee relies upon the franchisor for both brand equity support and also training and process design support (Davies, et al., 2011).

Franchising is a chain-building strategy that constructs resources, builds trust, and encourages knowledge sharing to maintain standardization and inspire innovation (Gillis, et al., 2009). The franchisors have a right to find qualified local managers, to train them, and to monitor their proceedings routinely with standardized procedures for the regular distribution of branded goods or services in a specific region for a specific period of time to make sure they are working properly (Gillis, et al., 2009).

In sum, the benefit of franchising is to lower supervising costs, foster innovation, and enhance adaptation to meet local market operation needs. Franchisors provide its core standardized system to franchisees in an attempt to maximize local profits and to create new products and services. (Yin, & Zajac 2004). In other words, such activities might be of benefit to the chain and sustain a notable chain brand reputation by delivering a standard high-quality level in all regions. Studies have recognized the effectiveness of franchisor strategies and strategic resources to create better operational capability. Franchisees take innovations, knowledge-sharing routines, and trust to turn up better performance. It has been discovered that successful franchisors seem to diminish costs and to create value depending on the effectiveness of franchisor strategies and the allotment of strategic resources. Thus, potential franchisees should look for a system that matches their needs in order to invest in knowledge-sharing that will identify, analyze, and enhance franchisee innovations. Successful franchise organizations must learn to develop an environment and systems that will cultivate knowledge creation and knowledge transfer between franchisor and franchisees, across franchised units, franchisor and company-owned units, and among all members in the network such as suppliers, customers and other organizations (Augier, Shariq, & Vendelo, 2001).

### **3. HISTORY, BUSINESS MODEL AND CHALLENGES OF CMA**

#### **3.1 Possible Defects and Problems for the Model of CMA Franchises**

Creating Mental Arithmetic - Creating Great Minds (CMA) was founded in 1984. The establishment of CMA was earlier than other well-known culture / education chains and franchises (such as, *Kids' Castle*, *Giraffe* and *Sesame Street*). CMA was set up as a talent-training institute based on the teaching and learning of mental arithmetic skills. Potential customers were seen as children in primary and secondary schools who needed to supplement their math curriculum in order to pass important high-stakes examinations at a later date. The scale and brand awareness of CMA made it the leading brand in the nascent market of mental arithmetic in Taiwan. Especially in southern Taiwan, CMA owned about 10 branches with 1,000 pupils.

CMA proved to be very popular in Taiwan. However, operational difficulties occurred, and business showed the signs of stagnation and decline. The possible reasons might be as follows: 1. CMA did not take advantage of the best turning point and then change its management strategy in response to the change in the marketplace; 2. CMA did not develop its business to follow the current market trends; 3. The formulation of the internal organization and management system were not complete; 4. The quality of teachers and teaching could not be increased rapidly; and, 5. Market positioning and marketing strategy have deviated considerably since corporate inception.

#### **3.2 The Possible Steps of Solving Defects and Problems for the Model of CMA Franchises**

In terms of the possible defects and problems enumerated above, the researcher investigated those defects or problems rationally due to the serious need for analysis and discussion with CMA management. Based on such open discussion, a schedule should be drawn up to solve problems according to their urgency.

The steps for solution of such problems are as follows:

1. Find out the real reasons for deficits,
2. Classify the problems and solve them thoroughly,
3. Discuss with related staff and get consensus,
4. Draw up solution plans and schedules,
5. Assign related staff to carry out the solution plans according to the schedule,
6. Check the results and effectiveness,
7. Prepare new rules to replace the original ones in order to avoid repeated failures.

#### **3.3 Promote Chains and Franchises Comprehensively**

Promoting chains and franchises has been a continuous ideal for CMA management to affect CMA's comprehensive and rapid global development. Nevertheless, promoting the system of chains and franchises has been a delicate and considerable business engineering task. In addition to expansion, CMA must maintain its existing franchisees to meet changes with appropriate timing. As such, prerequisites are needed to fulfill the system of chains and franchises (such as, brand image, curriculum, teacher training, business management and counseling.)

In terms of the promoting chains and franchise operations for CMA, the expectative performance has not been achieved. Aside from the possible defects and problems mentioned previously, an incomplete and poorly developed system of chains and franchises may be the key point to address. Therefore, two improvements should be made to promote chains and franchises and to develop their organization rapidly. If CMA wishes to promote chains and franchises smoothly and to

develop the franchise organization similarly, two actions should be taken, including: (1) To improve current defects and establish a healthy organization; and, (2) To establish a workable and attractive system of chains and franchises.

#### **4. CONCLUSION AND IMPLICATIONS FOR MANAGEMENT**

In terms of developing the overall culture and education industry in Taiwan, the culture and education industry for Children has encountered the problem of fewer potential students and falling tuition rates. More and more franchises are closing as a result. The turnover of a large majority of independent running culture and education business institutions has declined because of more and more franchise schools and the impact of fewer children. In order to overcome the difficulties, the culture and education industry for children has adopted a complex management response. In other words, except for professional teaching, afterschool programs, tutorial programs and computer teaching would be included in the franchise operating mix. The primary purpose is to increase the number of students and usage rate so that turnover could be increased. Besides, an enlarged children culture and education business base will be able to use its advantages to absorb new franchises and open new franchise schools. It is to expand its business and increase market share. The current research adopted documentary analysis and case study research to analyze CMA from a case study perspective. To investigate the business model on culture and education industry franchises, the following research propositions are proposed:

##### **4.1 Well-Established Management Mechanism to Increase Competition Advantages**

The current difficulties encountered by culture and education industry in Taiwan come from the direct demographic impact of parents having fewer children. As a result, more and more franchises are closing down and fewer franchises are being established. In order not to recommit the same errors, including a loosened structure for internal organization, a lack of clear goal and direction for the future development, an incomplete management system, and a lack of standard operation system should be avoided. Under an extremely competitive market structure of culture and education industry in Taiwan, CMA should readjust its internal organizational structure, plan a concrete goal for future development and executive mode, provide a complete internal management system and manage mechanism for its SOP. CMA could not only seek for the breakthrough for business management but also find out the possible problems and solve the problems one-by-one. Davies, Lassar, Manolis, Prince, and Winsor (2011) argue that franchise relationship improves franchisees' confidence in the franchisor's competence and integrity, and satisfies franchise partnerships.

##### **4.2 Establishment of a Complete and Workable System of Chains and Franchises to Increase Operation Performance**

Network franchisees are more open, flexible, and allow greater communication between and among members (Achrol, & Kotler, 1999). With 3 teaching characteristics (i.e., a unique way of working on an abacus with two hands, multi-media teaching, and assisted internet practice) and 7 special training methods (i.e., use both hands, sit still, speed, reaction, listen and calculate, and utilize internet training), CMA branch schools spread all over Asia, Africa and Oceania. CMA is not only the leading brand, but it is also the best-known brand for children's mental arithmetic worldwide. Although CMA has its own distinctive brand image, curriculum, teacher training, business management and consulting as salient advantages for chains and franchises to adopt, the expected performance has not been achieved since the promoting of chains and franchises. Given the cultural differences between home and host markets, franchisors should be compliant to the host market conditions in their efforts to gain franchisees' trust (Altinay, et al., 2014).

International business theorists claim partners must proactively manage cultural differences between partners and determine an awareness of and sensitivity to language, business practice, and political and legal differences are what affect relationships (Lorange, & Roos, 1993). The causes may include an unhealthy internal organization, an incomplete management system, a slowed improvement process for teachers and of teaching quality, and defects related to market positioning and deviation of a given marketing strategy. The key factor is that no complete and healthy chains and franchises system have been established. Researchers identify the importance of communication in this process, which markedly accelerates the transfer of knowledge (Voss, Johnson, Cullen, Sakano, & Takenouchi, 2006). As such, trust has a positive impact on the long-term sustainability of the franchise partnership by minimizing the possibilities for conflict both within and without (Altinay & Brookes, 2012 Harmon and Griffiths, 2008). In franchise partnerships, trust improves franchisee fulfillment to operational standards and hence homogeneousness across the franchise network itself (Davies et al., 2011).

Therefore, CMA should establish a complete and workable system of chains and franchises with new thinking and more innovative ideas. It could not only help to expand the overseas markets, but it may also facilitate the business of franchises to reach the expected profitability and performance standards.

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