

To Outsource or Not To Outsource Your Franchise Applications and IT Systems

The Most Important IT Decision You Will Ever Make

The benefits of a sound IT strategy in franchising is unquestionable. IT here refers to franchise management systems and business applications that allow you to better manage your operations as against computer hardware, software, networking equipment, etc.

Deploying the right IT solutions have traditionally allowed franchise organizations to:

- Streamline and strengthen their franchise sales processes
- Provide low-cost 24/7 franchise support
- Reduce compliance, legal and litigation costs
- Improve the cash-flow and royalty collection processes
- Enhance marketing activities
- Provide franchisees with powerful tools to increase their revenues

In short, the right Franchise software systems and business applications have increased productivity, reduced costs and improved franchise relations for most organizations.

However, the world is also filled with horror stories, hopefully not too many, where franchisors have spent a lot of money without getting the desired results for their investment in IT. The big question that most organizations face related to IT is whether to do things in-house, ostensibly to save money or to outsource some or all of their Franchise systems.

Doing it In-House

Based on conversation with hundred's of franchise organizations, the following come out as the key reasons for using in-house franchise management systems:

Control: Organizations feel that anything that is developed in-house provides them with better control and allows them to change applications to match their continuously changing business processes.

Size: A large franchise organization with several programmers on staff who can develop proprietary software to match the organization's exact needs typically end Up using in-house development

Legacy Applications: Franchisors that have legacy applications that were developed 7-10 years ago when current solutions were not available often tend to continue with them since humans and organizations naturally have resistance to change!

Franchise Growth: Slow or Non-Growth Franchise networks whose needs are basic and who are content with the current size of the franchise network often do not think of IT as a useful tool. They tend to be content with the basic IT systems like Email and home grown MS Access based applications.

Past Experience: The franchisor got burnt by working with a third party provider in the past and feels that developing solutions in-house gives them more control over the end product and the costs

The Challenges Associated with an In-House Approach

There are several trends that make an In-House approach challenging for a large number of franchise organizations.

Retaining Talent and Original Developers: Unlike a physical asset such as a computer or a piece of machinery, computer programs or software often cannot be fixed or cost more to get fixed by people other than those who developed them in the first place. This in turn requires that once an organization goes for in-house development, they always need to have the original creators of the software program and/ or a large team of programmers available.

Core Competency: What is your core focus? Is your business running a franchise organization or developing and maintaining software? Modern software applications are pretty complex and to continually develop and enhance them requires a disciplined software development organization.

Costs: Organizations often think that because they already have someone on staff, having them develop a software solution has no additional cost v/s the fee they would pay to a third party. This factor often overlooks the fact that if you really have enough free resources to develop best of breed franchise management systems, that other organizations have spent millions developing, then your resources are probably not optimally utilized in the first place. Additionally, the biggest cost associated with any IT system is not just the development cost, but the cost of constantly changing and upgrading them, removing bugs, adding features, etc. So the total cost is often the lifetime cost of having an internal software development team.

IT As a Service: A large school of academicians, led by Nicholas Carr at Harvard, point out to the fact that IT is becoming more and more like electricity – A commodity that can be tapped into as a service. Just like every major company had their own electricity plant at the beginning of 20th century, which gave way to a handful of electric utilities providing the service, Internally developed business applications and IT systems are giving way to applications provided over the Web where the service provider becomes responsible for software development, 24/7 uptime, security, maintenance, etc.

Outsourcing IT and Business Applications

There is a growing trend among most organizations, and not just franchise organizations, to outsource their IT systems and business applications. Besides overcoming all the challenges mentioned above with an In-House approach, organizations point out that Outsourcing helps out in the following ways:

Complexity of Business Systems: IT systems and business applications are becoming more and more complex rather than the old fashioned MS Access or Outlook based applications they have used in the past and hence these are best managed by professional software development organizations

Service Level Agreements assure Reliability and Uptime: By putting in strong Service Level Agreements (SLA's), backup and performance requirements, organizations can be assured that the systems shall be available reliably to them

Best of Breed Solutions: Since professional organizations have a large team of programming staff and have experience with several franchise organizations, they can easily create best of breed features.

Pay As You Go: Outsourced Business Applications used as a Service often have a Pay-As-You-Go model allowing organizations to conserve cash and make no expensive hardware or software investment

The Challenges Associated with Outsourcing

It would be naïve to say Outsourcing is a simple decision and only has benefits. Just like any other decision you make, whether buying a car, a house, or a stock the more work you do up-front, the better returns you are likely to get on your investments. An evaluation of the following factors should help in deciding your Outsourcing strategy:

Size and Financial Condition of the Outsourcing Partner: A large number of partners that had great ideas but went out of business after a few years. Choosing franchise businesses have gotten burnt in the past where they have chosen outsourcing the next-door neighbor or an organization that does not have sufficient depth, can often create challenges if they close shop or lose interest in franchising.

Match with Business Processes: In a rush to automate, Organizations often end up choosing generic solutions that do not completely match with business need and processes. The results are inefficiencies and in some cases, rejection of the solution by end-users.

Preparing the End-Users: Any new software that your implement or roll-out, will face resistance internally. The more training and dialog you have with the end-users the more successful you will be with deployment.

To Outsource or Not to Outsource – Defining The Right Strategy for You

The easiest way to define the approach you may want to take for your IT strategy depends on a few factors:

Look at your internal resources: If you plan to have a large (5 or more members) programming staff for the foreseeable future, you can probably have some applications developed and managed internally.

Growth objectives: Outsourced applications allow rapid deployment letting you focus limited resources on critical functions in a fast growing organizations; If you are looking at limited or no growth, using manual processes or MS Access or Outlook based applications may work fine for you.

Profitability and Return on Investment: Take a look at your annual spending on IT resources (such as hardware, software, hosting, backup, maintenance, security, cost of programmers, etc) and manual processes (such as hours spent on lead processing, royalty collection efforts, franchise support and compliance efforts) and compare them to the money you may spend on outsourced applications. The numbers should help you make the decision.

Outsourcing Checklist:

Once you have identified the factors that make Outsourcing a favorable decision for you, the following factors may provide you greater success in your efforts:

Multiple Systems: The more systems you have, the more effort will be required stop shops like IBM, EDS, Accenture as their outsourced partners is to eliminate the to manage them. A big reason why the largest organizations in the world use one-cost associated with managing multiple systems with different partners.

History and Experience with Franchising: For any application or applications that you may decide to outsource, if the Service provider does not have experience in Franchising, then the effort required in customization may be huge. Similarly, there is often a tendency to outsource applications to the next-door company or the friendly programmer next doors even though they may have little knowledge of your business processes or franchising. This short-sighted approach can often lead to huge costs in customization or maintaining those system if your outsourcing partner loses interest in franchising or closes shop.

Management Buy In: Make sure that top management is committed and buys into the solution that you choose. This will help overcome the end-user resistance and the usual up and downs you may face with your rollout efforts.