Information Technology in Franchising

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INTRODUCTION

Franchising is "a business opportunity by which the owner (producer or distributor) of a service or a trademarked product grants exclusive rights to an individual for the local distribution and/or sale of the service or product, and in return receives a payment or royalty and conformance to quality standards. The individual or business granting the business rights is called the *franchisor*, and the individual or business granted the right to operate in accordance with the chosen method to produce or sell the product or service is called the *franchisee*." (Justis & Judd, 2002)

Information technology (IT) has been widely used in today's businesses. In his best seller, *Business @ the Speed of Thought*, Bill Gates (1999) wrote: "Information Technology and business are becoming inextricably interwoven. I don't think anybody can talk meaningfully about one without talking about the other." Thus, to see how IT is used in franchising, one needs to know how franchising really works. The objective of this paper is to propose an attention-based IT infrastructure that can cultivate the relationship building between the franchisors and their franchisees which will ultimately lead to the success of the franchise organizations.

BACKGROUND

In addition to the popular growth strategy for many businesses, franchising has emerged over the years as a pathway to wealth creation for entrepreneurs (Justis & Vincent, 2001). This article first discusses the operations at both the franchisor headquarters and the franchisee outlets. Second, it reviews the franchisor/franchisee relationship and points out the essential indicators needed to pertain and flourish the good relationship. Third, it shows the inevitability of collaborative learning and innovation, which leads us to the discussion of the working knowledge development among the franchisor and the fellow franchisees. Fourth, we discuss that the proposed attention-based IT infrastructure will enable the knowledge sharing and dissemination between the franchisor and the franchisee; and suggest outsourcing the initial architectural stages of the IT infrastructure to trusted applications service providers.

Understanding the Franchisor

In this section we examine the operational activities at the franchisor headquarters. Figure 1 illustrates the interactions of the franchisor with all four of its entities: business units, prospective franchisees, suppliers, and government; as well as performing relevant activities (represented by rectangles): marketing its products and services, assisting in creating distinguished brand names indispensable in attracting new customers, selling to the franchisees, and handling the diversified financing quandaries.

The franchisor headquarters is required to provide both initial and ongoing support/service to all business units. Business units here include company units, all of the start-up, established and mastered franchisees, and the co-branded units. Among the five different types of business units, the franchisor needs to have intense concentration on supporting the start-up franchisees, since a good start is as efficient as the half way completion of any task. On the other hand, established and mastered franchisees are the ones in need of appealing incentives (e.g., having cobranded units) in order to encourage growth and expansion. Company units are typically used as role models for the franchisees.

To expand the business, the franchisor ought to select and contact the prospective partners (franchisees). The partner selection process is crucial to the success of franchising and requires exceptional attention. Prospective franchisees can be contacted through: (1) leads from marketing channels; (2) referrals, such as satisfied customers; (3) consumers who feel affection to the product/service and would like to be in possession of the business; (4) community and media relationships; (5) public services, like recruiting veterans; and (6) international contacts generated from master franchisees.

Franchise suppliers can be anywhere from products and goods distributors up to business service providers, such as real estate agents, human resources providers, uniform vendors, marketing and advertising agents, trade show and exposition organizers, accountants, information systems vendors, insurance providers, attorneys, translators, and many others.

Franchisors also need to comply with regulations that govern the sales of the franchises and business transactions in the places where the business located. The overall legal landscape of franchising is complex which includes: (1) federal, state, and international taxes; (2) local, regional, and global laws; (3) insurances, such as workers compensation; (4) possibilities of litigations from government, customers, and franchisees; and (5) supports for international expansion.

As is seen in Figure 1, the franchisor interacts with various business entities and conducts various deeds to fulfil his/her obligations. Moreover, the franchisor goes through a learning process, composed of five stages (Justis & Judd, 2002): (1) beginner—learning how to do it; (2) novice—practicing doing it; (3) advanced—doing it; (4) master—teaching others to do it; and (5) Professional—becoming the best that you can be. Once attaining the advanced stages of development, most preceding struggles have been overcome. However, further convoluted and challenging enquiries will arise as the franchise continues the expansion. This is especially factual once the system reaches the professional stage, where various unpredicted and intricate problems could arise. Bud Hadfield (1995), the founder of Kwik Kopy franchise and the International Center of Entrepreneurial Development, explained it the finest: “The more the company grows, the more it will be tested.”

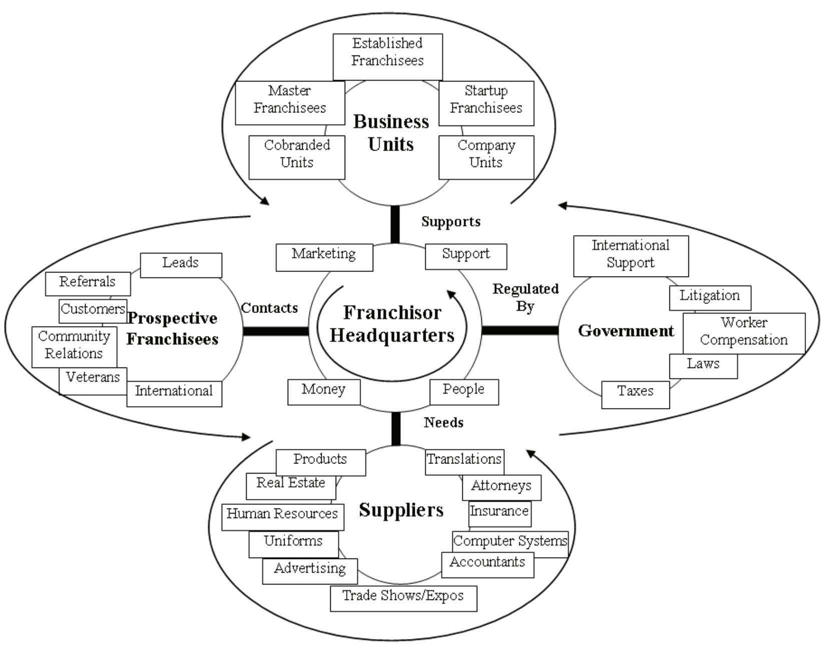
To capture the learning process in Figure 1, a counter-clockwise round arrow is used in each of the five categories. It depicts the increasing intensity of learning in every area of the sub-activities (represented by rectangles) as the franchise struggles to survive and thrive. For example, as the system expands, the real estate sub-activity will become much more complex, since the quandary of territory encroachment becomes more significant and harder to manage.

Understanding the Franchisee

As illustrated in Figure 2, the franchisee sells to customers, perform marketing and advertising activities, handle financial/accounting issues, and manage sales people. Akin to the franchisor, the franchisee outlets (shortened form, franchisee) work together with four entities: customers, franchisor headquarters, suppliers and government. The franchisee customers are divided into five categories and consist of potential, infrequent, frequent, online, and co-branded. Supports from the franchisor headquarter may include demonstrations from field representatives, training and continued education from the management groups, in addition to discussion forums and distance learning.

Suppliers of the franchisee are similar to those of the franchisor. They include both products and goods distributors, business service providers such as real estate agents, human resources providers, uniform vendors, marketing and advertising agents, trade shows and exposition organizers, accountants, information systems vendors, insurance providers, attorneys, translators, and others. The franchisee is regulated by the franchising laws at local, state, and federal level. The regulatory framework contains of: (1) federal, state, and international taxes; (2) local, regional, and global laws; (3)

Figure 1. Understanding how the franchisor works



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