

# E-Commerce in International Franchising

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## INTRODUCTION

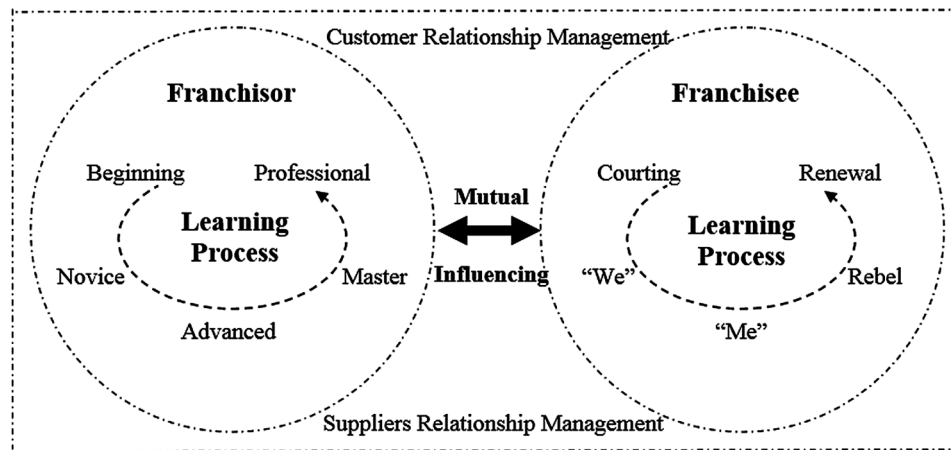
International franchising is gaining its popularity as a global growth strategy (Justis & Judd, 2002; Thomas & Seid, 2000; Chen & Justis, 2006). For example, the U.S. Commercial Service estimated that China, having over 2,600 brands with 200,000 franchised retail stores in over 80 sectors, is now the largest franchise market in the world (U.S. Commercial Service, 2008). The popularity of international franchising continues to increase, as we witness an emergence of a new e-commerce model, Netchising, which is the combination power of the Internet for global demand-and-supply processes and the international franchising arrangement for local responsiveness (Chen, Justis, & Yang, 2004; Chen, Chen, & Wu, 2006). For example, *Entrepreneur* magazine – well known for its Franchise 500 listing – in 2001 included Tech Businesses into its Franchise Zone that contains Internet Businesses, Tech Training, and Miscellaneous Tech Businesses. At the time of this writing, 24 companies are on its list. 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.” (p. 6) Gates’ point is quite true when one talks about e-commerce strategy in franchising. Thus, to see how e-commerce can be “meaningfully” used in international franchising, one needs to know how franchising really works.

## FRANCHISING: BUILDING THE FRANCHISOR-FRANCHISEE RELATIONSHIP

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, pp. 1-3) Developing a good relationship between the franchisor and the franchisee is the key for a successful franchise (Justis & Judd, 2002). Figure 1 describes how to build a good franchisor-franchisee relationship. The franchisor needs to learn continuously for the growth of the franchise. The learning process is developed through 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 reaching the “Advanced” stage, most preceding struggles have been overcome. However, further challenges will arise as the franchise continues growing. This is especially true 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, aptly stated: “The more the company grows, the more it will be tested.” (p. 156). To capture the learning process, a counter-clockwise round arrow surrounding the franchisor is used to depict the increasing intensity of learning as the franchisor continues to grow.

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Figure 1. Understanding how the franchisor-franchisee relationship works



The franchisee also goes through five stages of franchisee life cycle (Schreuder, Krige, & Parker, 2000): (1) Courting: both the franchisee and the franchisor are eager with the relationship; (2) "We": the relationship starts to deteriorate, but the franchisee still values the relationship; (3) "Me": the franchisee starts to question the franchisor that the success so far is purely of his/her own work; (4) Rebel: the franchisee starts to challenge the franchisor; and (5) Renewal: the franchisee realizes the "win-win" solution is to continue working with the franchisor to grow the system. Similar to the franchisor, a counter-clockwise round arrow surrounding the franchisee is used in Figure 1 to depict the increasing intensity as the franchisee continues growing. As the franchisee progresses through the life cycle, the good relationship gradually develops an influencing process (Justis & Vincent, 2001), depicted in Figure 1 with a bi-directional arrow. By going through the processes of learning and influencing, both the franchisor and the franchisee gain the progressive working knowledge of relationship management with the consumers and suppliers. The franchisor, the franchisee, the consumers, and the suppliers in Figure 1 are surrounded with dashed lines, indicating that there is no limit to the learning process.

## E-COMMERCE DEVELOPMENT: FRANCHISE RELATIONSHIP MANAGEMENT

With the advancement of Internet technology, franchise companies are adapting e-commerce strategies for perfecting the franchisor-franchisee relationship to grow their franchises globally. Figure 2 is a visual depiction of deploying e-commerce strategy in franchising. This community of franchise companies, consumers, and suppliers can be virtually connected for relationship management as follows:

- Intra-enterprise collaboration through Intranet for franchisee relationship management, enabling the franchisor to build up relationships with the board of directors, multi-unit franchisees, new franchisees, prospective franchisees, franchisor management and employees;
- Collaboration with consumers through Internet for consumer relationship management, enabling the franchisor and the franchisees to build up relationships with customers, prospective customers, investors, competitors, media, blogs, advocacy groups, and government;

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