Chapter 1.4
E–Business Strategy in Franchising

Ye-Sho Chen
Louisiana State University, USA

Chuanlan Liu
Louisiana State University, USA

Qingfeng Zeng
Shanghai University of Finance and Economics, China

INTRODUCTION

Franchising as a global growth strategy is gaining its popularity (Justis and Judd, 2002; Thomas and Seid, 2000; Chen and 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 franchising continues to increase, as we witness an emergence of a new e-business 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, and Yang, 2004; Chen, Chen, and 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, 45 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-business strategy in franchising. Thus, to see how e-business can be

DOI: 10.4018/978-1-60960-587-2.ch104
“meaningfully” used in 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 and Judd, 2002, pp. 1-3) Developing a good relationship between the franchisor and the franchisee is the key for a successful franchise (Justis and 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 and 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.

The franchisee also goes through five stages of franchisee life cycle (Schreuder, Krige, and 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

*Figure 1. Understanding how the franchisor/franchisee relationship works*
Related Content

Foreign Direct Investment in Land Acquisitions in India: Evidence and Challenges
www.igi-global.com/chapter/foreign-direct-investment-in-land-acquisitions-in-india/120378?camid=4v1a

Social Capital and Third Places Through the Internet: Lessons from a Disadvantaged Swedish Community
www.igi-global.com/chapter/social-capital-third-places-through/54879?camid=4v1a

Management Information System in Higher Education
www.igi-global.com/chapter/management-information-system-higher-education/54838?camid=4v1a

Chinese Investments in Italy: Is the Wave Arriving?
Francesca Spigarelli (2010). International Journal of Asian Business and Information Management (pp. 54-76).
www.igi-global.com/article/chinese-investments-italy/41922?camid=4v1a