Franchise Innovation via Netchising in the Digital Economy

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ABSTRACT

The essence of a successful franchise lies in managing the good relationship between the franchisor and the franchisee. In this paper the author shows that franchise innovation via Netchising, combining the power of the Internet for global demand-and-supply processes and the international franchising arrangement for local responsiveness, plays an important role in growing and nurturing such a good relationship in the digital economy. International franchising as a global growth strategy, especially in emerging markets, is gaining its popularity. 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 in 2007, is now the largest franchise market in the world. Another example is that India, having over 70 international franchise operations successfully operating with an investment of $1.1 billion and sales turnover of $2.7 billion in 2009, has made franchising the second fastest-growing industry in the country. The popularity of international franchising continues to increase, as we witness an emergence of new business models in the digital economy. Specifically, the author discusses how an effective digital strategy can help a growing franchise go abroad to emerging markets through soft landings to reduce risks and costs.

KEYWORDS


INTRODUCTION

International franchising as a global growth strategy is gaining its popularity (Justis and Judd, 2002). 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, 2007). 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, Chen, and Wu, 2006). In his best seller, Business @ the Speed of Thought, Bill Gates (1999, p.6) wrote: “Information Technology and business are becoming inextricably interwoven. I don’t think anybody can talk meaningfully about one without talking about the other.” Gates’ point is quite true when one talks about e-business strategy in franchising. Thus, to see how digital business can be “meaningfully” integrated into franchising, one needs to know how franchising really works (Guth and Poole, 2015). The success of networks, such as franchising, strategic alliances, joint ventures and clusters is highly dependent on the capability to create and transfer knowledge within the network (Gorovaia and Windsperger, 2010). We discuss how an effective digital strategy can help a growing franchise transfer working knowledge and adapt to the global markets, such as emerging markets, through international soft landings (Chen, Watson, and Azevedo, 2011) to reduce risks and costs.
FRANCHISING: MANAGING THE FRANCHISOR-FRANCHISEE RELATIONSHIPS

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 franchisor-franchisee relationship is the key for a successful franchise (Justis and Judd, 2002). Figure 1 describes how to develop 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, especially in the global markets. This is especially true once the system reaches the “Professional” stage, where various unpredicted and intricate problems could arise. Bud Hadfield (1995, 156), 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.” To capture the learning process, a counter-clockwise round dashed 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 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 and Vincent, 2001), depicted in Figure 1 with a bi-directional arrow. By going through the processes of learning

Figure 1. Understanding how to manage the franchisor-franchisee relationship
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