

# Franchising and Information Technology

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## INTRODUCTION

Franchising is “a business opportunity by which the owner (producer or distributor) of a service or a trade-marked 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)

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 information technology (IT) is used in franchising, one needs to know how franchising really works.

## BACKGROUND

### Understanding the Franchisor

The activities of the franchisor can be described using Figure 1 with five categories, having many sub-activities (represented by rectangles) in each of them:

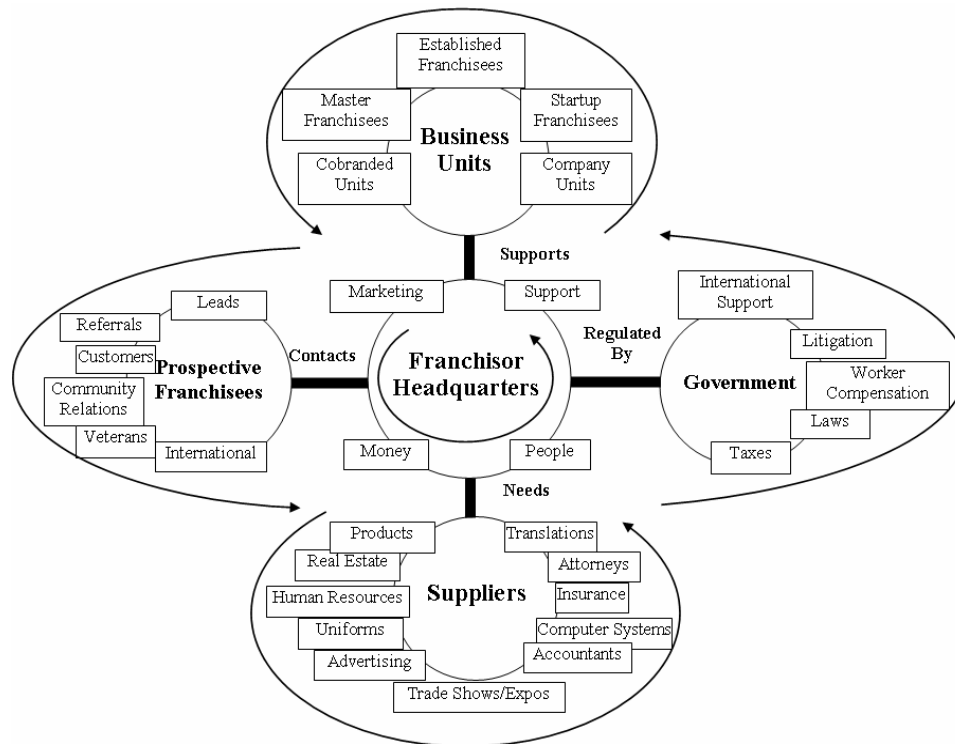
- Franchisor Headquarters, including: (1) Support, helping business units; (2) Marketing, selling to prospective franchisees; (3) People, performing support and development; and (4) Money, dealing with financial/accounting issues. It also supports the following four different categories of activities.
- Business units, including company units, startup franchisees, established franchisees, master franchisees, and cobranded units. Among these five the

franchisor should do the best to support startup franchisees, since good beginning is half done. Established and master franchisees are the ones the franchisor needs to provide incentives (e.g., cobranded units) to encourage expansion. Company units are typically used as role models for the franchisees.

- Prospective franchisees, contacted through several ways: (1) leads from marketing channels; (2) referrals from, for example, happy customers; (3) customers who love the products/services so much and would like to own the business themselves; (4) community and media relationships, helping deal with issues such as children’s education; (5) public services like recruiting veterans; and (6) international contacts generated from master franchisees.
- Suppliers, including products and goods distributors and business service providers such as real estate agents, human resources providers, uniform vendors, marketing and advertising agents, trade shows/expos organizers, accountants, information systems vendors, insurance providers, attorneys, language translators, and many others.
- Government, including (1) federal, state, and international taxes; (2) local, region, and global laws; (3) insurances such as worker compensation; (4) possibilities of litigations from government, customers, and franchisees; and (5) supports for international expansions.

As we can see from Figure 1, the franchisor has to deal with many issues to grow the system. The learning process of the franchisor is incrementally developed through the following 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. At a higher stage of the development, most of the problems in the previous stages have been dealt with.

Figure 1. Understanding how the franchisor works



However, more complicated and challenging questions will arise as the franchise continues the expansion. This is especially true when the system reaches the stage of professional, when many unforeseen and difficult problems could happen all of a sudden. Bud Hadfield (1995), the founder of Kwik Kopy franchise and the International Center of Entrepreneurial Development, said it the best: “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 continues surviving and thriving. For example, as the system expands, the real estate sub-activity becomes much more complicated since the issue of territory encroachment becomes more significant and harder to deal with.

## Understanding the Franchisee

The activities of the franchisee can be described using Figure 2 with five categories, having many sub-activities (represented by rectangles) in each of them:

- Franchisee outlet, consisting of making sales to customers, marketing and advertising, dealing with

financial/accounting issues, and managing people who make sales.

- Customers, including five types: potential, infrequent, frequent, online, and cobranded.
- Franchisor headquarters, providing supports to the franchisee, demonstrations from field representatives, training and continued education from the management group, discussion forums, and distance learning.
- Suppliers, similar to the list shown in Figure 1.
- Government, similar to the list shown in Figure 1.

The franchisee also goes through previously mentioned five-stage learning process (i.e., beginner, novice, advanced, master, and professional) represented by a counter-clockwise round arrow used in each of the five categories in Figure 2. Once again, the arrow depicts the increasing intensity of learning as the franchisee continues growing the business and many unforeseen problems/issues may rise up to challenge the practices.

## Understanding the Franchisor/ Franchisee Relationship

Developing a good “family” relationship between the franchisor and the franchisee is believed to be the most

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