

Chapter 8

E–Strategy and Soft Landings for Franchising in Emerging Markets

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ABSTRACT

International franchising as a global growth strategy, especially in emerging markets, is gaining popularity. For example, the U.S. Commercial Service estimated that: (1) 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; (2) 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 franchising continues to increase as the world witnesses 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. The essence of franchising lies in managing the good relationship between the franchisor and the franchisee. In this chapter, the authors show that e-business strategy plays an important role in growing and nurturing such a good relationship. In addition, the chapter discusses how an effective e-strategy can help a growing franchise go abroad to emerging markets through soft landings to reduce risks and costs.

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INTRODUCTION

International 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, 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, Justis, and Yang, 2004; 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 e-business can be "meaningfully" integrated into franchising, one needs to know how franchising really works. 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 e-strategy can help a growing franchise transfer working knowledge and adapt to emerging markets through soft landings (Chen, Watson, and Azevedo, 2011; Chen, Watson, Cornacchione, and Azevedo, 2013) to reduce risks and costs.

FRANCHISING: MANAGING 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, pg. 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." Figure 1 depicts the understanding of how to manage the franchisor-franchisee relationship. 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.

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