

Data Mining in Franchising

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INTRODUCTION

Franchising has been a popular approach given the high rate of business failures (Justis & Judd, 2002; Thomas & Seid, 2000). Its popularity continues to increase, as we witness an emergence of a new 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, & Yang, 2004). 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, 40 companies are on its list. Netchising is an effective global e-business growth strategy (Chen, Chen, & Wu, 2006), since it can “offer potentially huge benefits over traditional exporting or foreign direct investment approaches to globalization” and is “a powerful concept with potentially broad applications” (Davenport, 2000, p. 52).

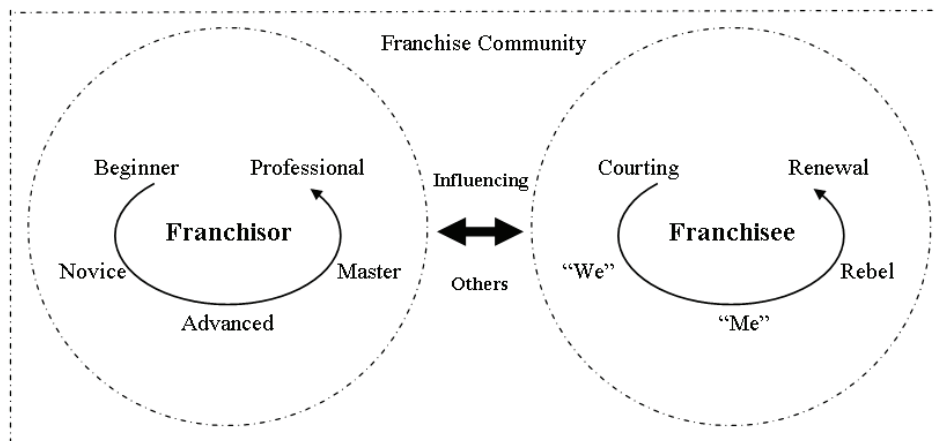
In his best seller, *Business @ the Speed of Thought*, Bill Gates (1999) wrote, “Information technology and business are becoming inextricably interwoven. I don’t think anybody can talk meaningfully about one without talking about the other” (p. 6). Gates’ point is quite true when one talks about data mining in franchise organizations. Despite its popularity as a global e-business growth strategy, there is no guarantee that the franchising business model will render continuous success in the hypercompetitive environment. This can be evidenced from the constant up-and-down ranking of the Franchise 500. Thus, to see how data mining can be “meaningfully” used in franchise organizations, one needs to know how franchising really works. In the next section, we show that (1) building up a good “family” relationship between the franchisor and the franchisee is the real essence of franchising, and (2) proven working knowledge is the foundation of the “family” relationship. We then discuss in the following three sections the process of how to make data mining “meaningful” in franchising. Finally, future trends of data mining in Netchising are briefly described.

FRANCHISING: 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 “family” relationship between the franchisor and the franchisee is the key aspect of a successful franchise (Justis & Judd, 2002). Figure 1 describes how such a “family” relationship is built in the franchise community.

In Figure 1, the franchisor is expected to be flexible in dealing with business concerns to expedite the growth process. The learning process is incrementally 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 attaining the advanced stages of development, most preceding struggles have been overcome. However, further convoluted and challenging enquiries will arise as the franchise continues expansion. This is especially factual 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. To understand how the “family” relationship is developed, one needs to know the five phases of franchisee life cycle (Schreuder, Krige, & Parker, 2000): (1)

Figure 1. Understanding how the franchisor/franchisee “family” relationship works



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 reasons for payments related issues with the attitude that the success so far is purely of his/her own work; (4) rebel—the franchisee starts to challenge the restrictions being placed upon; and (5) renewal—the franchisee realizes the “win-win” solution is to continue teaming up 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 of franchisee life cycle as the franchisee continues learning and growing.

As the franchisee progresses through the life cycle, the “family” relationship gradually develops an influencing process (Justis & Vincent, 2001), as depicted in Figure 1 with a bi-directional arrow: (1) working knowledge, proven abilities of expanding the franchise system profitably; (2) positive attitude, constructive ways of presenting and sharing the working knowledge; (3) good motivation, providing incentives for learning or teaching the working knowledge; (4) positive individual behavior, understanding and leveraging the strengths of the participants to learn and enhance the working knowledge; and (5) collaborative group behavior, having the team spirit to find the best way to collect, disseminate, and manage the hard-earned working knowledge. By going through the processes of learning and influencing, both the franchisor and the franchisee gain the progressive working knowledge in the franchise community. The franchisor, the franchisee, and the franchise community in Figure 1 are surrounded with dashed lines, indicating that there is no limit to the learning process.

MANAGING FRANCHISE ORGANIZATIONAL DATA

There are many “touchpoints” within the franchise community where the franchisor and the franchisee can influence each other. Based on the customer service life cycle (CSLC) model, Chen, Chong, and Justis (2002) proposed a framework (Table 1) to harness the Internet to serve the customers for the franchising industry. The 11 sub-stages in Table 1 are based on two well-known franchising books by Justis and Judd (2002) and Thomas and Seid (2000). The model in Table 1 may be used as a comprehensive guide for a franchise to develop its Web site, especially at the stages of Requirements and Acquisition.

Table 1 also is a comprehensive framework for a franchise to model the data needed to serve its customers, that is, franchisees and their customers. A well-designed Internet strategy, often enabled by application service providers (Chen, Ford, Justis, & Chong, 2001), shall empower the franchisor and the franchisees to collect, use, renew, store, retrieve, transmit, and share the organizational data needed to do the collaborative work in the various phases of the CSLC model. Specifically, three types of data are needed:

- **Operational Data:** The daily activities at (1) the franchisor headquarters, including six major entity types: employees; business outlets owned by franchisees or companies; prospective franchisees; product development; suppliers (e.g., marketing agents, accountants, insurance providers, attorneys, and real estate agents); and government offices (e.g., taxes and worker compensation); and (2) the franchisee business outlet, including six major entity types: customers, employees, contacts with the headquarters, product inventory, suppliers, and government offices.

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