Chapter 3.19
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 Inter*net* for global demand-and-supply processes and the international fran*chising* 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.
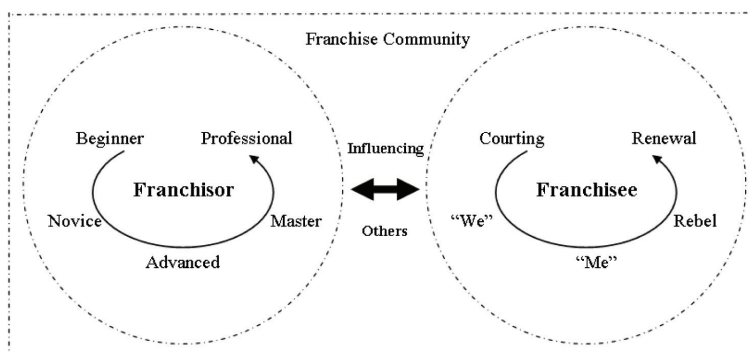
FRANCHISING: THE FRANCHISOR/ FRANCHISEE RELATIONSHIP

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

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