

Adopting the Internet in Franchise Systems: Australian Franchisors' Perceptions

Sally Rao,
University of Adelaide

Lorelle Frazer,
Griffith University

Abstract

The relevance and impact of the internet on the business-to-business market is widely acknowledged. However, little academic attention has been paid to the adoption of internet-based technology in the Australian franchising sector. Thus this paper addresses the problem: 'how and why Australian franchise organisations use internet-based technologies in their franchise systems?' This research uses convergent interviewing to investigate the benefits and barriers associated with adopting internet-based technologies in Australian franchise organisations. The findings will serve as the foundation for future empirical analyses. The analysis revealed that adoption of internet technologies is still in its infancy in Australian franchise systems with the major uses of franchisor websites being providing information to consumers and as a means of attracting potential franchisees.

Key words: franchise, Internet-based technologies, websites

Introduction

The relevance and impact of the internet on the business-to-business market is widely acknowledged (Pires & Aisbett 2002; Chaston & Mangles 2003). Among countries around the globe, Australia is one of the leading nations using the internet in both business-to-consumer (B2C) and business-to-business (B2B) settings (ABS 2001). Internet-based opportunities are now fast evolving for the franchising sector. Indeed, the franchising sector as a whole can further expand its market and service capabilities with this technology. The franchising sector, like most B2B markets, consists of members that are independent organisations that are bound together by well-defined roles, responsibilities and objectives. Thus while franchisors and franchisees are independent businesses with specific, defined responsibilities which are similar to other B2B relationships, franchise systems may be even more dependent on the success of their network members, than other types of networks. Success of this network as a whole is reliant on the success of both franchisors and franchisees. Thus firms operating in this network may be able to leverage the internet for the benefit of individual organisations and the network as a whole.

Many franchise organisations are moving towards 'network' behaviour to improve competitiveness through internet-based technologies such as the internet, intranet and extranet (Young, McIntyre and Paswan 2004). Franchisees are beginning to interact with customers and suppliers through the internet, creating opportunities to reduce transaction costs. Whilst implementing internet-based technologies in inter-organisational systems, including franchise systems, may potentially result in significant communication, revenue and profit gains, little is known about how to strategically leverage its capabilities. This lack of understanding by many on-line businesses may lead to financial losses, damaged company reputations, or

missed opportunities. Therefore, a better understanding of the internet as a commercial medium is required by business. Specifically, an understanding of the internet marketing's benefits and barriers, and how these benefits can be fully leveraged and barriers overcome, is important for the success of franchise organisations. Most research was conducted in the USA, using surveys to obtain basic statistics, which provide only exploratory and descriptive snapshots. Therefore, the research problem for this paper is: *how and why do Australian franchise organisations use internet-based technologies in their franchise systems?*"

This paper has three parts. Firstly, we review the literature on functional roles that web sites are assumed to play in franchise organisations, and issues of concern in adopting internet-based technologies in franchise organisations. Then, the methodology of convergent interviewing is briefly described. Finally, the findings from the convergent interviews conducted with eight Australian franchisors are discussed.

Literature Review

The literature has suggested several areas where internet-based technologies may have impact on a franchise system. Initially, the primary objective for a franchise system web site was to promote the franchisor's program to potential franchisees (Martin 1999). More recently, a dual marketing approach is commonly adopted by franchisors in the design of their web sites. For example, Young, McIntyre and Paswan (2004) examined various web activities found on franchisor web sites and found that they provide a means to interact with both franchisees and consumers. Many franchisors' web sites offer extensive outreach to customers through various sales promotion activities (Scott 2001). These activities bring to franchisors a tremendous amount of resources, capability and tangible benefits. Next, we consider the benefits that this dual marketing approach can provide to franchisors and franchisees in more detail.

Communication. At the core of this enhanced capability and resource base is the real time availability of information to all members of the franchise system. The internet facilitates the free flow of information that is fast, transparent and is universally accessible (Achrol 1997; Achrol and Kotler 1999). For example, franchisors can obtain real time inventory and sales information from their franchisees, resulting in a reduction in processing and transaction costs. Other information such as presentations and other business materials that can assist franchisees in everything from employee training to sales and marketing (Seideman 1998, Maddox 2000) can also be made available in real time. The internet also provides a means for franchisees to communicate efficiently among themselves about effective business strategies, fellow franchisees' experiences, evaluating new equipment, ordering supplies or even tracking a whole franchise system's sales figures (Love 1998). For example, Planet Smoothies franchisees can access marketing materials, communicate with other franchisees and discuss issues in chat rooms through the intranet (Berta 2001).

Transparent communication through the use of internet-based technologies offers tremendous advantages including: improved communication, a feeling of openness, a feeling of being part of a team, emergence of relational norms, a sense of alignment of goals, and a feeling of being part of the strategy and plans. It has been suggested that the presence of a transparent communication system is a prerequisite for improved communication both across vertical and horizontal levels (Achrol and Kotler 1999). The participation by the members is likely to come from the fact that they feel a sense of comfort, belongingness and shared values.

Coordination. Apart from dissemination of information, internet-based technologies can also be used for activities such as real time marketing, providing a ‘reservoir of knowledge’ and education, coordination, and conflict resolution within a franchise system (Vilchis 2001). They may also assist with business functions such as forecasting, risk management, performance assessment, transfer pricing or assessment of fees and royalties. For example, in addition to the ability to place orders with suppliers using net technologies, franchisors, franchisees and suppliers may have a transparent system in which inventory levels and forecasts are accessible to all members in the system.

Monitoring and controlling of franchisees/franchise units may also be facilitated by internet-based technologies. It is common to have many geographically scattered users access the same system in real time. Franchisors may require franchisees to provide regular reports of sales and other information to help ensure the viability.

Recruiting new franchisees. The web also plays a prominent role in franchisee recruitment and is becoming a major source of new franchisee enquiries. A web site may contain such information as an overview of franchise programs, franchisee testimonials and details on franchise opportunities. Some franchise web sites even contain the required initial capital contribution from the potential franchisee, as well as the amount of royalty and advertising fees (Page 1997). This makes the internet a valuable communication medium that affords efficiencies to the franchisor (Dickey 2003) in terms of reaching potential franchisees.

Marketing to consumers. Firstly, the internet is used to supply a wealth of information to customers. Most websites today contain extensive product descriptions and help customers to locate a specific franchise outlet in their area (Leipnik, Mehta and Maniam 1999, Pipes 2000). Secondly, an online presence will build consumer awareness that may lead to additional sales at franchised units (Keenan 1999). Activities such as the presence of a store locator button on the web site that could direct consumers to local franchisee units, or the use of online consumer sales promotion activities (coupons, discount packages and gift certificates) are tangible efforts by the franchisor to increase overall sales for the franchisee. Thirdly, the internet has also assisted the franchising sector to develop and maintain relationships with customers. Many web sites contain customer feedback forms through which customers can lodge their questions, comments or concerns. Franchisees can now respond to their customers more rapidly and therefore provide better quality service.

Therefore, the use of the internet may lower direct marketing costs for the franchise system (Mehta, Stewart and Kline 2001). It could reduce costs by replacing many of the brochures, letters and memos that franchises send out via regular mail or fax. Furthermore, franchisees could reduce direct mail costs through the use of online promotion activities.

Issues of concern

Resistance to change. Resistance to change and time itself could be a major barrier to the adoption of internet-based technology. Organisational culture takes time to change. One may question whether franchisors or franchisees would be comfortable with such a transparent communication system. Franchisors may perceive a loss of control and power when making deals with individual franchisees in a transparent and open environment. By the same token, franchisees be not be willing to expose themselves to everyone else in the franchise system. Thus, finding franchisees who are willing to adopt the internet can be a major hurdle.

Privacy. The degree to which individual franchisees take advantage and communicate through internet-based technologies is dependent on the level of trust in the franchisor. Indeed, privacy and concerns of opportunistic behaviour are primary concerns when franchisors implement internet-based technologies (Sibay 1997). There may be the feeling of loss of autonomy and “big brother is watching” (Brey 1999).

Encroachment. Potential encroachment by franchisors via online sales presents a difficult challenge within the franchising sector (Terry 2001). Many franchises have begun to sell their products online. Even fast-food chains such as McDonald’s sell an abundance of promotional items such as t-shirts and caps. Approaches to online sales represent a continuum from no franchisee involvement with no resulting franchisee revenue to no franchisor involvement with typical royalties paid. Many franchisors that offer online purchases via their web sites credit sales to a franchisee store in the customer’s area and rely on franchisees for order fulfilment (Scott 2000).

Methodology

Confidential face-to-face interviews were held with eight franchisors chosen as a convenience sample from a range of industries and covering systems of various sizes and ages. The industries included retail food and non-food, property and business services, personal services and accommodation, cafes and restaurants. The organisations had been operating websites for 3 to 15 years, with the firms varying in size from just 4 to over 300 units.

A convergent interviewing approach was used for the in-depth interviews that lasted up to one hour. The interviews, which were conducted with the franchisor in small systems or a marketing executive in large systems, were taped with respondents’ permission and later transcribed and analysed using QSR NVivo qualitative software. The convergent technique was appropriate in this study for several reasons. The research was exploratory and its aim was to build rather than test theory. In addition, the interview process was cyclic in nature, enabling the research issues to be continuously narrowed down (Carson, Gilmore, Perry and Gronhaug, 2001). Hence, interpretation of the data gradually converged enabling a tentative framework of understanding to be formed as the basis of future research. Respondents were asked to discuss a number of issues including the purpose and role of their web sites, acceptance of the technology by franchisees, affect of the technology on communication and the franchising relationship, and level of satisfaction with the internet in their organisations. In addition, the franchisor websites were examined for functionality and degree of complexity.

Findings and Discussion

Despite operating their websites for several years the level of sophistication of the technology used was fairly low. Most franchisors saw the purpose of the website as being a means of providing information to (a) consumers and (b) franchisees. Some also felt a website presence was important for building brand awareness. Overall, the respondents were quite satisfied with the functioning of their websites, given cost constraints, but were striving for constant improvement. A common goal was to move to a ‘higher level’, such as providing e-commerce transactions. However, a dilemma was the choice of administering the website in-

house or outsourcing the service, with the issue of cost keeping most services within the organisation's domain. The following dominant themes were revealed in the analysis.

Communication. Not surprisingly, the internet was seen as an effective means of communicating with franchisees, customers and suppliers. Franchisors found it more efficient to place information such as promotional materials and operations manuals on the internet for access by franchisees. Most found they were using email more to contact franchisees but that franchisees were not necessarily embracing the opportunity. For instance, consider this response by a large fast food franchisor:

‘Theoretically it should make things more efficient, but (we) struggle to get our franchisees to use it.... First, our franchisees don't have a computer in store. If they have worked in store all day the last thing they want to do when they get home is turn on their computer. The other reason is that our franchisees are in that age bracket that are not computer literate. They struggle to keep up with the technology.’

This dilemma had even caused the franchisor to re-evaluate criteria for franchisee selection:

‘We are looking for better business people ... Business people are getting more internet savvy ... You can't just have (our) sign above your store and turn your lights on and make good money. There is so much competition.’

Despite the more common acceptance of email, some respondents prefer to use the telephone to keep in contact with franchisees. There was a shared feeling that a good franchising relationship required personal contact, which was difficult to achieve with email. For instance,

‘The internet only facilitates business communication. It doesn't replace relationships, nor does it build relationships.’

Franchisee recruitment. All respondents said they used their websites to recruit franchisees, but for some it was not the main method. Whilst the website enabled franchisors to present a favourable impression about the company, respondents still noted the need to select the right people carefully. As a service industry franchisor noted:

‘We mainly get our franchisees through advertising. We do have a web page, which provides information for (prospective) franchisees. But we are very wary about recruiting franchisees through the web. We have trouble finding people with common sense.’

E-business. Most respondents expressed visions of being able to move beyond using their websites as marketing tools towards transaction-enabled technology. Issues of cost and franchisee acceptance were cited as the main barriers preventing the transition earlier. Encroachment was not currently a problem but most anticipated the need to ensure safeguards were put in place to protect franchisees.

Conclusions

Using internet-based technologies to link exchange partners aims at enhancing efficiency within a business system. However, there is little research about the effectiveness of adopting internet-based technologies in franchise organisations. While franchisors and franchisees relationships are similar to other B2B relationships, franchise systems may be even more dependent on the success of their network members, than other types of networks. Thus, internet-based technologies may play an even more important role in franchise systems.

This preliminary research indicates that franchisors appear to use the internet for the basic functions of communication and recruitment, but are hindered by cost and franchisee acceptance from adopting more sophisticated functions. For the internet to be used to its full potential, the franchising sector must realise that it can be used not only for franchisee support, but also for vendor support, customer support and supply chain management. Nevertheless, there was a clear message that whilst internet technology can assist franchisors in managing operations, it nevertheless cannot replace important personal communication in maintaining effective franchising relationships. We have much to learn about effective use of the internet in a franchise system and further empirical research is called for.

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