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Franchising And The Internet: An Example of Knowledge Mangement in New Zealand Business

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FRANCHISING AND THE INTERNET:

AN EXAMPLE OF KNOWLEDGE MANAGEMENT IN NEW ZEALAND BUSINESS

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ABSTRACT

"The newest innovations, which we label information technologies, have begun to alter the manner in which we do business and create value, often in ways not readily foreseeable even five years ago." [1].

The Internet is a technology that has revolutionised business and the manner in which it is conducted. Recent studies suggest that e-commerce will explode to over US$6 trillion in 2 years time.

This paper discusses how the Internet can be used in one particular facet of business: franchising. The manner in which services are provided through the use of Internet sites and the strategies by which these can be implemented are covered, examining the different types of sites, and the roles of the franchisor and franchisee in development. The benefits that can be experienced are outlined, and vary from advertising both the franchise concept and the products or services provided, improving communication between parties, and providing the opportunity for collaborative ventures.

Up until now the degree to which the Internet has been adopted by Franchises in New Zealand has been limited, with some notable exceptions. However recent surveys reveal that its acceptance is increasing, and that franchise systems recognise that the use of technology poses opportunities in the years to come.

1.   INTRODUCTION

The Internet is cited as being a revolutionising technology that has profound impact on the way business is being conducted. Recent studies estimate that the worldwide Internet population stands at 377 million [2, 3]. Total e-commerce (business to business and business to customer) is expected to explode from the current US$650 billion to US$6.8 trillion in 2004 [4].

In this paper, the role of the Internet will be examined with respect to one particular facet of business: franchising. In particular, the different strategies for the use of the Internet, the capabilities it can provide, and the benefits that may result will be discussed.

Most of the cases and research material sourced are of international origin, originating primarily in the United States and the United Kingdom. As a result, the state of Internet use in New Zealand franchises will also be examined, drawing largely upon annual survey and collateral material.

2.   STRATEGY

When examining the use of the Internet, there are several design issues that will determine the capabilities and services to be provided, and generic strategies for implementation.

2.1   Type of Internet capability

The capabilities that can be provided through the use of the Internet are differentiated by the classifications of the people with access to the services being provided. Such people can range from being internal staff through to unknown third parties. Although referred to collectively as 'Internet' services throughout the rest of this paper, they can be defined more specifically as being that of an Internet, Intranet, or Extranet site [5, 6, 7].

Intranet. An Intranet is a secure web site that is set up on the Internet for the exclusive use of companies' franchisee and corporate staff. The users here are all internal or known to the organisation. Typically, this capability provides an organisation with a communication 'backbone'. This is used for a variety of purposes, including internal document dispersion and e-mail.

Extranet. An Extranet is a means of providing information and services to users external to the organisation. Such users are typically referred to as 'trusted partners', and can be involved in such activities as advertising, and placing of orders for both inventory and supplies.

Internet. An Internet site is one that is made available to users that are external to the organisation, and may be completely unknown. Such a site can be a location for resources for brand development and advertising, and transactions and other services may be performed on-line.

2.2   Internet Strategy

In examining the strategies that are applicable to the franchise context, there are three choices for development; to create a centralised, corporate web site, allow franchisees to create distributed, independent web sites, or merge the two for a 'best of both worlds' approach [5].

Centralised development. Centralised development of a site involves the franchisor accepting complete responsibility for development and maintenance. Such an approach ensures that the professionalism and the image of the franchise are maintained through a quality site, further developing the brand.

Distributed development. In this scenario, each franchisee is left to develop their own site, with minimal interference by the franchisor. The problems that emerge here are that with disjoint web sites with no standardisation, a variety of different styles of varying quality may eme rge, and the professional image sought may not be realised. Where the sites are developed independently, there is likely to be considerable potential for the emergence of conflicts between franchisees, regarding who is in possession of the site address (e.g. http://www.subway.co.nz/) and the territories that are affected by such a site.

Combination. A well-received approach is development of a central site that reflects the branding of the franchise. This incorporates links or mini-web sites that identify individual locations. In such a manner, the overall quality of the site can be maintained by the franchisor, and the image of the franchise protected, while still allowing the individual franchisees the ability to advertise their specific locations without coming into conflict with other franchisees or the parent.

Implications. An explicit policy on Internet presence is becoming an increasingly important issue. More important than developing a policy is to ensure that it is accepted by existing franchisees, and is part of any contract for new recruits. Traditional franchising agreements may not include the implications of new and emerging technologies, and the Internet is one such technology that when left out, can cause conflict.

A recent case in Australia, involving book retailer Dymocks highlights this fact. In absence of any contractual statement explicitly concerning an Internet presence, the franchisor sought full rights to the organisation's web site, in exchange for a minor equity stake in the site for the franchisees. While the majority agreed, they did not and took the matter to court, claiming that the site would compete with them in their respective territories. While the courts ultimately found that the full rights to the site lay with the franchisor, it was an expensive exercise for all parties [6].

In the United Kingdom, The Travel Shop experienced similar problems when one of its franchisees established an Internet site without seeking the approval normally required of standard advertisements or brochure material. The site resulted in the franchisee's business increasing ten-fold, to the detriment of other franchisees who experienced detrimental effects in their territories [6].

3. BENEFITS

The benefits that may be experienced in the use of the Internet are largely generic benefits experienced by most businesses in establishing an Internet presence. Some are more applicable to franchising than others.

3.1 Franchise Sales

The Internet is described in recent US articles as having developed rapidly from a novelty advertising gimmick several years ago to the present, where it is one of the most important mediums for generating leads for franchise sales [5, 8]. With finding potential franchisees cited as one of the biggest problems being faced in the following decade [9], the implications of the Internet as a recruitment tool are considerable.

In placing information regarding the franchise on a web site, the benefits reported are largely that of decreasing the costs associated with each inquiry, and better allocating resources to following the most promising leads. One aspect of this is that where sufficient information is provided, the Internet is accredited with reducing the number of 'idle window shoppers' that are mildly interested in what is involved in becoming part of a franchise. Those that do proceed to take the matter further are more likely to be serious prospects, better informed regarding the franchise. More informed prospects are less likely to be wary of an aggressive sales pitch where they do not have the basic facts and background information, resulting in better communication [10].

Another technique that may be employed is to place short biographies and photos of the staff who will be following up leads generated on-line. 'It helps break the ice, when you do business with someone, it's always helpful to have an image of who you are talking to' [10].

Placing information on a web site, while helpful, is only the first step of a comprehensive on-line advertising strategy; 'failing to drive prospective franchise buyers to it is analogous to producing and printing a beautiful promotional brochure and never mailing it to a targeted list' [8]. To this end, links to the website need to be placed on the on-line equivalent of traditional advertisements. Web sites for franchising associations, business opportunities, and self-employment forums all help target the information to those most likely to be interested in franchise opportunities.

The success of on-line promotion and advertising has been substantial. Alden [8] reports a number of franchises that have achieved success. The Sports Section generates 25% of sales enquiries while spending between 5 and 10% of the advertising budget on-line. By all accounts, such results were not unusual; a number of franchises were reported to be achieving similar results.

The cost involved with setting up a site for this purpose is small. Many franchisors have reported that selling a single franchise has covered the costs involved.

3.2 Products Sales

One of the more publicised aspects of the Internet is the ability to provide another outlet for the sale of the products and services offered. The manner by which this is achieved can be attributed to marketing and brand development, provide product information, and the ability to conduct transactions on-line.

Advertising on-line provides a medium through which more targeted, cost-effective marketing can be achieved. Much in the manner described in the previous section,

adverts and links can be placed on other Internet sites that can direct likely customers to the franchise site.

Within the franchise's Internet site, information about the products offered can be placed, with full multimedia effect. Where appropriate, sound, animation, and video can all provide better information about the product than traditional media. The information can also be updated quickly, and the dissemination effect is immediate, ensuring that current, up to date information is available 24 hours, 7 days a week.

The ability to conduct on-line transactions enable clients in geographically dispersed, potentially international locations to place orders without ever leaving the comfort of their own homes. Where the product is standardised, this can be of great convenience to the customer. Providing on-line information regarding order status can eliminate further queries. Other franchising sectors that are likely to benefit are those in fast food and hospitality.

Fast food franchises are increasingly facing a situation where an on-line ordering system is necessary not to increase sales, but to protect market-share. Domino's the United Kingdom's largest pizza delivery chain, expects on-line ordering to make up 30% of all sales by the end of the decade. Domino's also experienced customers spending between 25-30% more online than through traditional means [6].

It is widely expected in the hospitality sector that Internet-generated reservations will soon dominate all other sources of reservations. The volume of reservations has been doubling annually for the past three or four years, and is expected to continue. The attractiveness of the Internet is in its ability to reach a global population, and be available '24 / 7', both of which make it attractive for travellers seeking confirmation prior to physically arriving [11].

3.3 Communication

Like most business, franchises are capable of generating an immense amount of paperwork in various forms of communication [9]. The number and volume of manuals alone is significant (Figures 1,2).
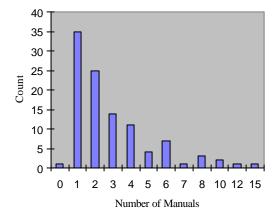

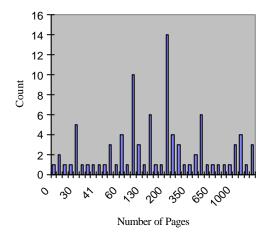**Figure 1: Number of manuals in system [12]**

Figure 2: Volume of instructions [12]

Placing documents on-line allows for much quicker instant dissemination of information than traditional 'snail-mail'. Franchisees are able to retrieve documents such as price lists immediately, and are able to implement them while the prospects are still hot.

The ability to quickly make modifications, and the immediate availability afterwards, make dealing with electronic documents an attractive option. Effectively, the opportunity cost for the time lag associated with traditional communication is eliminated.

Establishing a repository of documents (e.g. financial reports, manuals) and links to relevant sites can provide a valuable shared resource. Where this information is required by multiple parties over a period of time, such a repository can increase organisational learning and save time and resources by preventing 'reinventing the wheel'.

3.4 Training

Franchises are increasingly being faced with a more geographically dispersed (sometimes international) workforce that requires training. In addition, chain stores and franchises characteristically have a high employee turnover rate, and the franchise is likely to be in a position of the on-going training of an ever-changing workforce [13].
Already, franchises are beginning to team up with other institutions to provide training and qualifications for employees. In New Zealand, McDonalds and Auckland University of Technology (AUT) have teamed to enable training qualifications gained under McDonalds to be certified towards a business degree [14]. As such partnerships develop, it is likely that the Internet will be of particular interest. The Internet has already been established as an educational medium, with long-distance learning established and available for some time. Franchises overseas are already employing it as a training solution.

Some of the benefits have been described in the document distribution section; franchises create, print and ship huge

volumes of training materials that quickly become obsolete, requiring frequent replacement.

In addition to the distribution of teaching materials, the interactive element of the Internet makes it an ideal medium for certification of skills. With on-line tests, it is possible to monitor an individual's understanding of the content covered, and ensure that a comprehensive, high quality, uniform level of understanding has been achieved.

It has been noted that the costs involved in the travel and accommodation are often more expensive then the training itself. An on-line medium eliminates much of the cost associated by providing updateable information available '24/7', to a global population.

3.5 Integration with Suppliers

The Internet offers great potential to improve the supply chain management of a franchise through enabling better integration and coordination amongst the franchisees, the franchisor, and the suppliers. This is particularly applicable when the franchise supplies material to the franchisees.

Internal to the franchise organisation, the Internet provides a means by which franchises can communicate and coordinate between themselves and the franchisor. This is not only through providing a common forum for the discussion and development of ideas, but on a more practical basis. On-line inventory systems are an example of a system that allows franchises to query each other for stock availability.

Online connection to external organisations offers benefits of both better coordination and better pricing. Where a collaborative effort is made, purchasing wholesale can recognise pricing reductions of up to 20%. In addition to better pricing, other benefits cited include more informed stock status, free freight, same day delivery, and greater convenience [15][16].

An interesting approach to the development of sites has been adopted by some franchises, notably Subway. In their web site, it is possible for landlords or agents to propose potential locations to the Subway franchise for consideration for further development. A checklist is provided to codify this process. In doing so, some of the effort in finding sites has been replaced by 'suppliers' of sites.

3.6 Cooperation with Franchise "Partners"

In addition to enabling better integration with those involved in the supply chain management of a franchise, a trend that is becoming more pronounced internationally is the increase in alliances that are forming between franchises. The main goals appear to be in achieving a greater customer base, or critical mass, and to improve the convenience and quality of the service provided.

Floyd [6] refers to a number of cases that illustrate this. One such United Kingdom example is Countrywide Assurance joining forces with bank Halifax, insurance provider Royal Sun & Alliance, and Connell Estate Agents in order to create the largest full service real estate site in the country, expected to advertise on-line 50% of all properties advertised for sale.

3.7 Disclosure

While it is noted that New Zealand currently has no specific legislation relating directly to disclosure, the New Zealand Franchise Association Code of Practice makes specific reference to disclosure requirements. Australia has legislation regarding disclosure, as does the United States. The benefits that can be achieved can be considered a specific combination of two issues already discussed, regarding the promotion of the franchise, and the distribution of documents on the Internet.

In the United States, the Federal Trade Commission (FTC) established franchising disclosure rules to prevent 'serious informational imbalance between prospective franchisees and their franchisors' [17]. Specifically, the franchisor must disclose:

- Information about the franchisor and the franchise system, such as names of officers, litigation history, and the number of franchisees.
- Financial information including audited financial statements.
- Material costs associated with the franchise and the provisions of the franchise agreement.
- Information about former and current franchisees within the system.

Prior to the Internet, it was required that the prospective franchisee was provided with a copy of the lengthy document at considerable expense. The distribution of this document over the Internet shares the same benefits as the distribution of other documents outlined above.

3.8 Benefits Summary

The benefits that are experienced from the use of the Internet by franchises are considerable. The aforementioned were not a complete list, but merely illustrate some of the advantages particularly applicable to franchises.

With the growth of the Internet population and corresponding e-commerce, the opportunities that it prevents must be acted upon quickly. In all likelihood, as the number of organisations use the Internet in new and innovative ways, it is expected that an on-line presence will soon not be a source of advantage, an additional means to create customer contact, but it will be necessary to ensure the survival and economic viability of the organisation.

4. NEW ZEALAND CONTEXT

The focus of this paper has been a discussion of some of the manners in which franchises can use the Internet and the benefits that can be accrued from it. Typically, the information and examples provided have been of

international origin, focusing on the United States and Europe.

In this section, the status of the New Zealand franchising Internet adoption, opportunities and threats, and future direction will be discussed. The primary sources for this were the 'Franchising New Zealand' surveys [9, 12] (Hereafter referred to as FNZ Survey), and a survey of 99 franchise websites[1].

4.1   Internet Presence

As stated, of 453 franchises, it was found that 99 had Internet sites available. While this figure may seem very low, especially when the figures in the first section are compared, this is not to say that all of the services discussed above have been precluded. It is possible that internal networks, or intranets, were in place that could not be accessed. Having said this, the findings are consistent with the FNZ survey.

4.2   Franchise Recruitment

Of the franchises with sites listed, it was found that only 53% of these disclosed that they were a franchise, and that opportunities existed to become involved. This figure is interesting for a number of reasons. Firstly, the fact that it is only 53% suggests that there is some reluctance to reveal the fact. This may be attributable to the fact that franchising received bad publicity in the late 1980s, and that there may still be a negative association, although this is fading through better public educational and awareness. Secondly, in the FNZ 2000 survey, it was disclosed that the Internet as a recruitment medium featured only in 3 responses. It may be that despite the presence of such information on the Internet, it is not regarded as being an important generator of leads.

In terms of the quantity and quality of information displayed, in most cases there was little more than a brief outline or history, and a means of contact. None of the sites featured information sufficient to satisfy US disclosure rules.

Advertising on the Internet also featured poorly in the FNZ 2000 survey, where the Internet was cited as a marketing tool / activity carried out in the last 12 months by only 1 of the 100 respondents.

In light of the above points, it is interesting that it was stated in the same survey that the second greatest challenge, after substandard operators (24.4%), was attracting suitable franchisees (15.4%). It would appear then that a valuable resource may be seriously under utilised, and that greater employment of the Internet may be of benefit.

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[1] The sample is taken from the mailing list used for the New Zealand survey. It is estimated that only 300 of the 458 listed organisations represent current business format franchise systems. The total number of systems surveyed that had Internet sites was 99.

4.3   Site Capabilities

Services	Count	Frequency
Franchise Information	52	53%
Product Information	89	90%
E-mail Contact	79	80%
Transactions	13	13%

Table 1: Services Provided

The sites examined were largely brochure-type sites. The primary purpose appeared to be to promote the business, and provide some form of product information or catalogue (90%). The location of franchise sites and contact details appeared in 83% of all sites studied. E-mail was offered as a contact option for 80% of the sites featured.

Only 13% of sites provided the ability to make reservations or place orders on-line, and this number includes those where payment was required either over the phone, or in person. The main categories of business that provided this were fast food and hospitality. While the level of transactional capability also appears low, it is interesting to note that these are the two categories that were identified from the literature that were particularly suited to providing Internet interfaces.

The overall capabilities of the sites examined showed very little in the way of functionality, and many appeared to be a formality, present just because it was available, and not part of an integrated business function. This issue is further enforced by the FNZ 2000 survey that reported that technology was a significant challenge facing the franchise in the new millennium (11.4%). Hopefully, this is a sign that there is at least recognition of the problem.

4.4   Privacy Statement

A significant concern that is raised in the use of the Internet for conducting business is the issue of the collection of information about the individual, and the respect for privacy [1]. Despite this, only 13% of sites examined had any form of privacy statement. It is interesting to see that this information was displayed predominantly by sites with transactional capabilities, and that privacy is only deemed an issue where this type of information is collected. However, as most of the sites had some means through which to establish e-mail contact, the information gathered should still result in the display of some manner of privacy policy. It is possible in this case that franchises can help themselves in increasing confidence in e-commerce by providing such information.

4.5   Support

The need for ongoing support for franchises was revealed in the FANZ 1997 survey [12], where all respondent

franchises reported that some form of on-going support was provided.

In analysing the method for which support was provided, only 4% of franchisors employed the use of the Internet (Table 2). This is particularly surprising, as the 1997 winter edition of the Australian Franchise magazine featured a front cover article on the necessity for having some form of Internet support.

Support Method	Count	Frequency
On-going Training	94	20%
Newsletters	92	20%
Annual Conference	83	18%
Telephone Hot line service	73	16%
Other	46	10%
Franchise Advisory Council	34	7%
Master Franchisees	27	6%
Internet	20	4%
None indicated	0	0%
Total	**468**	**100%**

Table 2: Franchise Support Structures [12]

In a survey carried out in 2000 of New Zealand fast food franchises[2], the majority (44 of 48, with 4 non-responses) had Internet access. This and the frequency of usage (Table 3) suggest that the Internet, while having great potential, is under-utilised.

Times Used Per Month	Frequency	Percentage
Not at all	2	4%
1-2	6	13%
3-6	3	7%
7-14	9	20%
15+	26	57%

Table 3: Fast Food Franchise Monthly Internet Usage

4.6   Web-based Marketing

Paynter and Taylor (2001) discuss how the Internet, a revolutionising technology that has profound impact on the way business is being conducted, can be used to service

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[2] The survey involved a mailing list of 220 units identified from the white and yellow pages.

the franchise system. Franchising itself can be considered a service. In exchange for an initial franchise fee and/or on-going royalty payments, the franchisor offers support to its franchisees in a variety of ways. In the 2001 survey, the systems were asked to specify how they used the web, in particular for marketing and support activities. The survey revealed an increasing use of the web for marketing and support activities compared to the earlier surveys, 17% and 39% in the 1997 and 1998 surveys respectively. The infancy of this form of marketing and support can be seen from the fact that over half the web sites are less than two years old. 84% of the systems have a web site, and of these 74% were based in NZ (some has sites in NZ as well as overseas). A larger number, 93%, have Internet access and 85% used it for communicating with their franchisees. 63% use the Internet as a form of group-office support. This reflects that, in many systems, the franchisees are the system's customers. This is particularly the case when master franchisees are appointed to an area. Where the franchise does have a site, 75%, 59% and 53% use it for brand awareness, brand marketing and selling the system's products and services respectively.

5.   CONCLUSION

The use of the Internet is being used internationally to provide a number of services for franchises. The advertising potential of the Internet clearly has great potential in advertising not only the products and services being provided, but also in promoting the franchise itself and attracting new prospects.

The use of the Internet is also being exploited for the support that a franchise can provide to its franchisees. Such support can come in the form of repositories of information, provision of training, and better integration, both within the franchise and to external parties.

The Internet would appear to be of particular use to New Zealand franchises, given the rapid acceptance of the technology by the population in general, with 1.31 million people on-line [3]. In practice the opportunities presented have not yet been addressed by franchises.

However, on the upside, there does at least appear to be recognition of the problem here. While the Internet does feature poorly in the FNZ 2000 survey, it has improved on previous years. Furthermore, technology is specifically cited as a challenge that does need to be addressed in the coming years. The 2001 FNZ survey is as yet incomplete but already early indications (as reported here) suggest that the Internet is becoming an increasingly important part of the service provision and knowledge management for franchise systems.

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