

Digital Franchising and Entrepreneurship: Effects of Digital Technology on the Relations of Business Process Participants



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Abstract: *One of the most popular forms of business in many industries of the world economy is franchising. The advance of franchising has changed the operational environment for economic entities and created the need to adjust operational processes, generate new knowledge and implement them in operations.*

The purpose of this paper is to analyse the potential of digital franchising and involved drivers of growth exploited by innovative franchisers in the long run.

The paper provides an analysis and specifies the theoretical aspects of operating digital franchising by an entrepreneurial enterprise. The drivers of growth exploited by innovative franchisers in the long run are determined. Digital franchising trends are profiled against the backdrop of digitalisation of the world economy.

Keywords: *franchising, franchise, digital franchising, franchise network, franchiser, franchisee.*

I. INTRODUCTION

Franchising is one of the most advanced models of setting up and running an enterprise, as it solves a number of challenges facing small businesses, primarily the lack of resources, time, talent, uncertainty and low confidence in own business, etc. Operational practice in a variety of business organisation models shows that the expansion of franchising in all business areas ensures prompt adjustment to the situation in the national economy.

The reason why franchising is popular is that it creates favourable conditions for the expansion of distribution chains both in the national and international markets and enables prompt and cost-effective growth of representative offices [1-3]. The host country where franchise enterprise is

operational receives an inflow of foreign direct investment to meet resource requirements of businesses and support quality improvement and eventually national competitiveness.

Franchising promotes the innovative aspect of an enterprise through direct or indirect influence on the following factors: balance, equilibrium in the proportions of demand and supply in innovative products and services in terms of quantity, structure and quality; duration in hours of the innovation interval between the emergence, refinement and implementation of new technologies; design and development of new items of innovative products; development of sociocultural factors (change in values, professional competence levels, staff motivation); intensifying competition, which fosters commitment to product quality improvement, range expansion; growing and more complicated consumer requirements [4-6].

Franchising as an organisational form of business promotes innovation-driven development of local enterprises, as franchisees obtain not only trademarks from the franchiser in return a specified consideration, but also new technology, knowledge, expertise and public standing. Such form of business helps to bring new solutions into the market in the shortest time possible, opening the way for entrepreneurs to earn maximum profits on the projects they finance.

The future of franchising looks very promising, as a growing number of companies exploit the concept in running a business and a growing number of entrepreneurs pursue options to set up a business under well-known trademarks.

According to the International Franchise Association, the global franchise market today counts almost 16.5 thousands of franchisers and more than 1.2 million franchisees; chain sales volume approaches 1.5 trillion dollars, the franchise business model employs approximately 12 million employees. Franchising companies contribute approximately 13% of the GDP. The biggest franchiser companies work with up to a thousand partners or more [7].

By major indicators describing country profiles in franchising, Russia is still considerably behind the so-called mid-range, let alone the leaders. According to EMTG organising one of the most authoritative franchise fairs in Russia, BUYBRAND Expo, approximately 3 thousand franchisers are now operational in the country with more than 70 thousand of franchise outlets. Meanwhile, nearly 20% of the market is taken by the franchises with the highest investment volumes (up to 1 million roubles) [8].

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II. LITERATURE REVIEW

Franchising has been a research focus of many Russian scholars, namely: G.A. Bunich, L.V. Fedyakina [9], S.V. Vatutin, M.E. Trishin [10], E.L. Davydova [11].

Their papers outline the essence of such notions as franchising and franchise relations and their major features, describe various classification approaches and the advantages and disadvantages of running a business on a franchise basis. J.G. Combs, S.C. Michael and G.J. Castrogiovanni [12] discussed the issue of trade secrets owned by the franchiser and disclosed to the franchisee. E. Calderon-Monge, I. Pastor-Sanz and P. Huerta-Zavala [13] analysed the issue of discontinuation of the franchiser-franchisee relations after a franchise agreement is signed. L.A. Nugroho [14] studied the aspects of interpretation of a franchise agreement during court proceedings.

J. Gamez-Gonzalez, F.J. Rondan-Catalun and E.C. Diez-de Castro [15] studied the emergence of franchising and showed that franchising is most likely the case where the enterprise is capital-intensive and the franchiser shows considerable growth. Researchers R.P. Dant and M. Grunhagen [16] considered international franchising to conclude that franchising as a form of business is positively viewed in most countries. L. Lewandowska [17] studied the franchiser-franchisee relations and their efficiency.

Researchers have focused on the expansion of franchising in the world and the influence on individual regions and nations, particularly the EU [18, 19] and the Arab East [20, 21].

According to M.S. Shakhova, franchising should be viewed as a method of sales almost unlimited in scope. Given that, the researcher considers franchising as a relieved enterprise offering a number of advantages arising from the acquired right to exploit intangible assets of the franchiser. The researcher discusses legal aspects of franchising, approaches the latter as a specific format, a complex of rights and obligations, a package sold by the franchiser to the franchise holder and describes franchise as a proven business system to be replicated by the franchisees [22].

It is worth noting that professional bodies in different countries construe franchising based on the actual and practical positions and conditions of its existence. Thus, where franchising is identified with a franchise, it becomes limited to marketing objectives and tasks and is construed as a system to build network business.

Summarising the above with regard to the economic and legal substance of franchising, franchising may be justly recognised as a business model built tightly around the principles of partnership and offering entrepreneurs the potential of expansion powered by the resources of partner franchisees, which solves the problem of resource deficit for opening new locations, as may be often the case for small business.

Other important advantages of a franchise-based business partnership include the following:

- smooth navigation preventing local taxation and economic issues in case of expansion into the markets of goods and services in other countries;
- minimisation of transaction and operating costs at the expansion stage relating to the search of a location/premises,

negotiating rental terms, funding, staff recruitment and training [23].

Research hypothesis: the digitalisation of the economy drives economic entities to develop new information technologies and the consequent transformation would be a driver for the development of franchising.

III. PROPOSED METHODOLOGY

A. General description

An analysis of international publications discussing the influence of digital technology on franchise relations was conducted as part of the research to establish the outlook of digital technology applications in modern franchising.

The method of expert survey was also used for determining the involved drivers of growth exploited by franchisers.

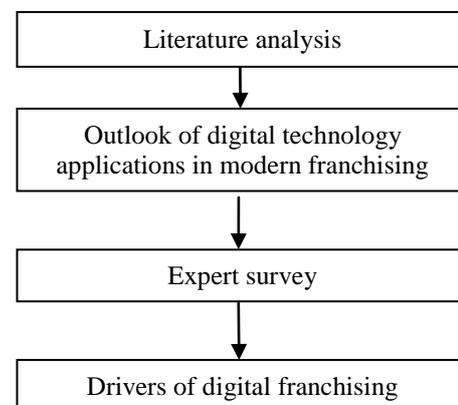
Twenty-four experts took part in the online survey, including 12 respondents from the IT segment of the economy and 12 executives of franchisee enterprises from various areas of business.

B. Algorithm

An analysis of academic publications discussing the influence of digital technology on franchise relations was conducted at the first stage of the research in order to establish the outlook of digital technology applications in modern franchising.

The second stage involved an expert survey to establish the involved drivers of growth exploited by innovative franchisers.

C. Flow chart



IV. RESULT ANALYSIS

An analysis of a number of sources on digital franchising [24, 25] finds that efficient franchise operation amid economic digitalisation requires substantive adjustment in the organisation of an enterprise. There is no way for success in modern franchise operations without the ability to generate innovation, identify strategic resources and build competences.

The latter are seen as an important source of competitive advantage in the activities of globally operating organisations. Meanwhile, the information revolution has changed the operating environment for modern franchising, creating new conditions for the activation of its innovation-driven

development. Certainly, intellectual resources largely reflect the nature and specifics of the existing business model of franchising, as well as the opportunities to use relevant organisation forms of innovation activity and adequate systems and methods of investment support.

Current globalisation processes mean that the priority of innovation development in franchising is the digitalisation vector. It means that efficient operation of franchise subjects is possible through the identification of alternative

competitive development strategies taking into account digital trends with a principal focus on quick adoption of digital technologies into the operations of business subjects. Arguably, the digital revolution is a powerful driver of the development of franchising.

Based on an expert survey, we compiled a list of the drivers of growth involved, which are exploited by franchisers in the long run (Table 1).

Table 1: Drivers of digital franchising

Drivers of digital franchising	
Locally	Globally
Awareness of customer needs	
<ul style="list-style-type: none"> - resource availability for identifying prospects and assessing their unsatisfied needs; - skill development for in-depth research, particularly major ethnographic and qualitative field studies; - customer attraction and engagement with them as partners in the innovative process; 	<ul style="list-style-type: none"> - application of analytical tools and technologies for gathering information on specific markets and transformation of the findings into an actionable business vision; - quantitative analysis and establishment of a clear understanding of the market size and expected behaviour;
Staff and innovation culture	
<ul style="list-style-type: none"> - delegation of responsibility for decision-making powers to local franchisees in fast-growing markets; - assurance that local executives of franchisees have powers to decide on staff recruitment; - ability to develop and promote new product ideas or services to meet local needs; - potential to establish pay and compensation schemes for local teams to make sure they are motivated to assess the size and growth rates of the market; - careful identification of local partner franchisees at each stage of the value chain; - consideration of local customer needs and assurance that prices and other aspects of the business model are adequate; 	<ul style="list-style-type: none"> - active focus on the development of culture and values being global in their scope; - development of global thinking and ability to deal with uncertainty and integrate different views; - understanding of interrelations between different regions and implications of decision-making in one region for the others; - establishment of clear rules, particularly in risk management and framework compliance; - operation of global supply chains and customer relations management systems; - deciding whether particular aspects of the franchise network should serve localisation or support purposes

The most important advanced achievements of digital franchising include modern and efficient business technology CRM representing a technological strategy of customer relations management based on a software complex supporting business process automation in customer transactions and allowing to cut down on costs involved. Thus, one of the experts, Nikolai P., who became a franchisee of Metro Cash & Carry under the Fasol program (the so-called soft franchising), indicates that the company's partners automatically get IT solutions speeding up customer order placement with the help of history and analytics, as well as the development of new promo offers.

The essence of this strategy, the experts say, consists in aggregating all customer information sources, feedback concerning marketing events, sales figures and market trends for building close customer relations.

In the modern business environment, a franchise targeting market expansion has to ensure maximum efficiency in customer operations.

One of the key advantages of a CRM strategy is, to the experts (92% of respondents), personalisation, the process of adaptation of products and services, sales technology and corporate marketing policy to meet individual customer requirements. Personalisation, according to the experts, is one of the major strengths of franchise strategies in terms of economic benefit. CRM serves to monitor customer needs, track positive or negative sales trends of the franchisees based on the Big Data technology and use the insights to

generate additional products and services and efficiently market them. Analyses of customer preferences open the way for predicting their behaviours and using these insights to offer what they want.

The second most important advantage of CRM, according to the experts (83% of respondents), is the opportunity to scale and grow business. In other words, the CRM concept allows gaining as much as possible from the available resources, i.e. markets, opportunities, customer relations.

Besides, the experts believe (71% of respondents) that CRM enables correct forecasts of sales and business growth, which means a franchiser can draw up forward-looking plans of development.

Table 2: CRM strategy advantages

No.	CRM strategy advantages	% of references	rank
1	Personalisation	92%	1
2	Opportunity to scale and grow business	83%	2
3	Forecasting sales and business growth	71%	3

Note: based on the findings of the expert survey

V. DISCUSSION

As to the development outlook of digital franchising, the experts emphasise the network model. The experts approach digital franchising networks as a combination of business units with specific inner relations, common parameters and characteristics, with a single centre of distance strategic management and operational mechanism. The experts point out that a network is a voluntary combination supporting the cooperation of participants based on individual agreements.

The experts responding to the survey argue that digital franchising is one of the varieties of the network-based business forms allowing to maintain some financial stability and supporting longer life cycles of a business entity. According to one of the experts (Lev D.), "the essence of a business process framed as digital franchising formalises the relations between the network participants. The franchiser realises a franchise to an established enterprise in accordance with legislation. It already has a management team, has selected its competitive territorial position and has estimated the local market. A franchisee, for a specified consideration, gets a publicised brand, additional online training for the staff, a refined technology for marketing the product or service, etc."

The experts believe that a digital franchise network is a combination of enterprises operating under a single brand with a view to expanding the marketing geography for the products and services, attracting additional financial inflows, extending the geographic presence (popularisation and awareness among other consumers), reinforcement of the competitive positions in the existing markets and winning more under the franchise agreement.

Some experts (67% of respondents) define a digital franchise network as a combination of economic entities connected through the use of modern digital technologies, namely, the Internet of Things, Big Data, artificial intelligence. If a combination is viewed as uniform elements (economic entities) with similar qualitative basis but different by certain features (the legal status of the economic entity), then a digital franchise network can be understood as a combination of economic entities. If the notion of network is emphasised, then a network is a combination of uniform entities (the uniformity relates to the industry), which sets forth (shapes) the rules inside (franchise terms) and outside the network. Therefore, according to the experts, the network (combination) of digital franchising creates the rules instead of the franchising dictating the terms of cooperation.

An important point was made by an expert that a franchise network is not a traditional network partnership, as long as the network does not set rules and the franchiser owns the business idea.

That said, according to the respondents (58%), while a digital franchise network is built by the franchiser and the network is a combination of uniform objects, this means digital franchising should operate with at least two franchisees. The experts believe it is also logical to include, as part of the definition of a digital franchise network, the notion of electronic partnership, as long as the features of franchising (terms of electronic partnership) specifically make it a digital franchising network as such, where electronic partnership is a form of business organisation

under a franchise-based business model.

The above aspects, according to the experts, predetermine the need for the franchiser's remote control of franchisee operations as they market a product or service under the franchiser's brand. Such remote control is possible through the establishment of a subsystem of distance accounting of the digital franchise network to supply the franchiser with reliable information on the turnover for visibility in terms of complete royalty payment, the selling price of the franchiser's product and discounts offered by the franchisees, the level of administrative and marketing costs.

One of the conditions of digital franchising, according to the experts, is the digitalisation of the global economy. Now, the leaders of digitalisation are the EU countries, the USA and Japan, i.e., the drivers of global innovation advances, because digital technologies provide for leveraging a wide range of dynamic opportunities, but, at the same time, appear as a source of risk.

The American fast-food chain Subway can be an example of digital franchising in the world's developed economies; it now counts approximately 45 thousand franchisee restaurants in 100 countries. One of the experts (Andrei P.) pointed out that Subway's control system for partners is based on weekly analyses of major sales data (revenues in monetary terms, check numbers, average check) provided to the franchisee in electronic form. Control is operated on a Like-for-Like and Same-store Sales bases. The main communication resource and simultaneously the knowledge base for all participants of the franchise is partners.subway.ru.

In the turbulent market environment, the experts note that the digitalisation of franchising makes the basis for new opportunities, values and competences, which, in turn, allows to shape stable competitive advantages. To make sure digitalisation would support the development of business, relevant digital trends should be first identified in the franchising sphere (Table 3).

Table 3: Relevant digital trends in the franchising sphere

No.	Relevant digital trends in the franchising sphere	% of references	rank
1	increased scope of digital transformation	88%	1
2	application of smart technologies and gadgets	83%	2
3	integration of marketing activities in customer life cycles	79%	3
4	higher data personalisation level	71%	4
5	availability of digital applications for smartphone users	58%	5
6	integration with SEO and content marketing and AR technology development	58%	6

Note: based on the findings of the expert survey.

In 2018, according to the American website Franchise Direct [26], the most popular franchise markets in the world were the fast food and hospitality sectors.



However, over the past five years, the scope of the franchise market has expanded considerably. Apart from the hospitality and restaurant segment, digital franchising is now more frequently used in other economic sectors, such as the production and assembly of computers, video rentals, software sales, sales of computer accessories and other devices, communication services, car repair and so on [3, 21].

The experts believe, modern franchising is recognised in the world as the most progressive form of business. Its terms are beneficial for entrepreneurs setting up a business, as they considerably bring down the risk of failure and losses. For instance, as shown by researchers [27], only 5% of enterprises operating under franchise terms in the USA fail within the first five years in business vs. 90% for other small businesses.

VI. CONCLUSION

The research results prove the hypothesis that digitalisation of the economy drives economic entities to develop new information technology and the respective transformation would be a driver for the development of franchising.

Franchising is beneficial not only for business owners, but for consumers as well, as access is thus provided to domestic and international products of time-proven quality.

These trends, therefore, create the need for studying novel models and finding new sources for attracting and generating intellectual resources. It is unlikely that traditional franchising would survive the digital revolution. Therefore, management priorities should be transformed and dynamic opportunities should be leveraged, which would provide competitive advantages in the markets. Thus, in our view, digital transformations would drive the subjects of franchise relations toward high levels of innovation, competence, efficiency, leadership and responsibility, with a principally positive outcome for companies and the society.

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