



Online search – Online purchase in franchising: An empirical analysis of franchisor website functionality



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ABSTRACT

The aim of this paper is to characterize franchisors' e-commerce strategies by studying their website functionality. Franchisors can use their website to facilitate consumer search. They can also provide content and tools to promote online purchasing (e.g., promotion codes, online payment, delivery options). Why are some franchisor websites more "search oriented"? What are the factors that influence the provision of informational tools and/or transactional tools? This empirical study is based on a detailed observation of 130 e-commerce websites of franchisors operating their chains in the French market.

1. Introduction

Many retailers have an online presence through a website, a Facebook page or a Twitter account. As well as for other functions (e.g., employee recruitment), retailers use the Internet to communicate with their current and potential customers and to provide them with information about their products and/or services. They are also increasingly using their websites as a new distribution channel – complementary to the physical stores – to sell their products and/or services online. "Multichannel retailers dominate today's retail landscape." (Zhang et al., 2010, p. 168). Worldwide retail ecommerce sales will reach \$1.915 trillion in 2016, accounting for 8.7% of total retail spending (source eMarketer).

E-commerce is also growing in franchising (Cedrola and Memmo, 2009) with examples such as Yves Rocher selling cosmetic products in physical stores and on their website, or GAP in the clothing sector, or Jeff de Bruges in the chocolate industry. Franchising is "a contractual arrangement between two independent firms, whereby the franchisee pays the franchisor for the right to sell the franchisor's product and/or the right to use his trademark at a given place and for a certain period of time [...]. [T]he relationship between franchisor and franchisees "includes not only the product, service, and trademark, but the entire business format itself – a marketing strategy and plan, operating manuals and standards, quality control, and continuing two-way communication [...]" (Lafontaine, 1992). Franchising is growing in most countries worldwide (developed as well as developing countries), and most industries including retailing and services.

Nevertheless, selling online, in the case of franchising, has not come about without incurring some conflicts between franchisors and franchisees and sometimes among the franchisees themselves, especially when franchisees are granted an exclusive territory, i.e., "a geographical area in which the franchisor agrees not to add any other outlet, either franchised or company owned" (Azoulay and Shane, 2001). According to the European Commission, franchisors (as well as franchisees) are allowed to sell online even in a context of exclusive territories. However, an e-commerce website can have negative effects on the provision of pre-sale and after-sale services in physical stores if the online channel cannibalizes the sales of the offline channel (e.g., Kalnins, 2004; Fontenot et al., 2006; Branellec and Perrigot, 2013; Cliquet and Voropanova, 2016).

Despite the growing importance of – and the potential issues raised by – e-commerce in franchising, the literature on e-commerce in franchising remains scarce. A few scholars have looked at the transactional capability of franchisor websites and highlighted the determinants of e-commerce implementation, mainly in terms of chain characteristics (e.g., Perrigot and Pénard, 2013; Cliquet and Voropanova, 2016). A few others have looked at the European regulation of e-commerce including franchisor and franchisee freedom to create an e-commerce website, as well as the requirements for selling online in terms of website presentation and functioning, and its impact on the relationships between franchisor and franchisee websites (e.g., Branellec and Perrigot, 2013; Perrigot et al. 2013a; Perrigot and Basset 2015).

This paper examines how and for what purpose franchisors design and implement their e-commerce website. Franchisors can use their

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website to facilitate consumer search (e.g., description of the products/services, pictures, zoom option, other customer ratings). They can also provide content and tools to promote online purchasing (e.g., promotion codes, online payment, delivery options). Why are some franchisors' websites more "search oriented?" What are the factors that influence the provision of informational tools and/or transactional tools? In our paper, we offer a new perspective on the issue of e-commerce in franchising. We do not study e-commerce strategy as a binary decision (i.e., whether to have a transactional website or not) as most previous research has done. Rather, we analyze it as a multivariate (and multipurpose) choice in terms of website functionality. Moreover, we do not only explore the sales cannibalization, but also the synergy effects between the offline and online channels (i.e., physical stores and website), in link with chain characteristics and more specifically the percentage of company-owned stores within a chain. Our research questions are the following:

1. What is the set of content and services provided by a franchisor website and what is their purpose (i.e., to help Internet users find information or purchase online)?
2. Which chain characteristics can explain a franchisor's choice to provide more or less functionality related to search and transaction processes? Is it linked to the percentage of company-owned stores within the chain (i.e., the balance of power between the franchisor and the franchisees)?
3. What are the interdependencies between online search functionality and online purchase functionality?

Our empirical study is based on an in-depth analysis of 130 e-commerce websites of franchisors operating their businesses in the retail and service sectors in France. We focus on the French market for three reasons. First, [Dant \(2008\)](#) and [Dant et al. \(2008\)](#) encouraged scholars to look at markets outside the Anglo-Saxon ones. Second, France is the largest market in Europe in terms of franchising, more specifically in terms of number of franchisors. There are 1834 franchisors with 68,483 franchised stores generating 53.38 billion euros of total sales ([French Franchise Federation, 2016](#)). Third, in France, as in Europe, the European legislation applies to and has an impact on e-commerce practices ([Branellec and Perrigot 2013](#); [Perrigot et al. 2013a](#); [Perrigot and Basset 2015](#)).

The main results of our regression models are as follows. We find that the percentage of company-owned stores within the chain only has a significant and positive impact on the range of online purchase functionality. However, this type of functionality is positively correlated with the range of online research functionality available on the website. Our research contributes to the literature on franchising and on e-commerce implementation in the franchise sector. It also contributes to the practice by providing an overview of franchisor websites' functionality, their purpose and interdependencies.

In [Section 2](#), we review the existing literature on e-commerce in franchising. Research hypotheses are formulated in [Section 3](#). The methodology is described in [Section 4](#). Results are presented and discussed in [Sections 5 and 6](#), respectively.

2. Literature review

The literature on E-commerce in franchising remains scarce in comparison with its importance in the practice. A first stream of literature deals with the examination of the content of franchisor websites in different countries. For instance, [Dixon and Quinn \(2004\)](#) described the content and type of functionality available on 240 franchisor websites in the UK. They found that over 10% of franchisor websites enabled customers to order online but not to pay online and that over 15% proposed both online ordering and payment. They also looked at percentages of franchisors that provide a way to order, to order but not to pay and to order and pay via the website according to the industries.

[Young et al. \(2004\)](#) also analyzed 200 websites of franchisors operating in the US. They focused on the presence of a store locator, the use of online consumer sales promotions and the possibility of purchasing online from the franchisor or the franchisees' websites. Similarly, [Rao and Frazer \(2006\)](#) explored franchisor marketing activities on their websites. Their empirical study dealt with a sample of 202 websites of franchisors operating their businesses in Australia. They found that only 11.4% of franchisor websites allow Internet users to buy online. [Cedrola and Memmo \(2009\)](#) looked at the use of the Internet and the areas of improvement for franchising. Their sample included 305 websites of franchisors operating their business in twenty countries (e.g., Argentina, Australia, Brazil, Canada, various European countries, Mexico, Russia, US). They found that 21% of franchisor websites enables visitor to order or purchase online, with high percentages in the services (29.7%), specialized food retailing (29%), hotels/restaurants and personal care (27%), and household articles (25%). Moreover, 10.2% of franchisor websites direct the contacts to the franchisee websites for online purchases. Finally, [Perrigot and Pénard \(2013\)](#), analyzing the e-commerce strategy of 486 US franchisor websites, found that 20% of franchisors had adopted an e-commerce strategy.

A second stream of literature deals with the factors that facilitate the implementation of franchisor e-commerce website. Among the features of a franchise chain, the percentage of company-owned units (or respectively the percentage of franchised units) within the chain, is a well-studied factor. Looking at 166 retail franchisors in the US market, [Kaufmann et al. \(2010\)](#) found that the percentage of franchised stores within a chain has a negative impact on e-commerce implementation. Moreover, [Perrigot and Pénard \(2013\)](#) pointed out that the percentage of company-owned stores has a positive impact on the investments in a e-commerce website. Finally, [Cliquet and Voropanova \(2016\)](#), basing their explanations on encroachment and observing 180 websites of franchisors operating their chains in the retail sector in the French market, found that the lower the percentage of franchised stores, the more likely the website is transactional.

Other chain characteristics have been studied. [Young et al. \(2004\)](#) found some significant differences in terms of e-commerce according to chain size and industry. E-commerce is more likely to be proposed in smaller chains and in the service sector. [Perrigot and Pénard \(2013\)](#) pointed out that chain size had a positive impact on the choice of having an e-commerce website whereas chain age had a negative impact. They also found that e-commerce was more likely to be used in the retail sector and the hotel/restaurant sector.

3. Research hypotheses

According to [Emerson \(2010\)](#), encroachment, corresponding to "the phenomenon where the franchisor has authorized a new franchise or established a company-owned unit within an existing franchise's market area," is the "number one problem" for franchisees and "the issue most in need of a just resolution" for most franchise chains. The issue of encroachment can be transposed to the Internet when a franchisor (or a franchisee) opens an e-commerce website. Indeed, franchisees can consider their franchisor and/or other franchisees of the chain operating an e-commerce websites as direct competitors in their territory, inflicting losses in terms of sales and income. In this case, [Cliquet and Voropanova \(2016\)](#) explained that "through e-encroachment, a franchisor can capture franchisees' sales as if it were opening a huge company-owned outlet covering all territories." Franchisees can thus react negatively if e-commerce websites are opened by the franchisor and/or other franchisees. According to the European regulation, the Internet is no longer considered to be a physical point of sale, but a sales protocol. As such, creating a transactional website at the behest of a franchisor or one of its franchisees no longer constitutes a violation within the scope of territorial exclusivity. Thus conflicts can emerge, as was the case for *Flora Partner – Jardin des fleurs*. [Branellec and Perrigot \(2013\)](#) explained that the origin of this conflict relied on the fact that

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