

Franchising and the Internet

Part one of a two part series

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Question: I am a retail franchisor and have had a web site for several years focused primarily on recruiting new franchisees. Several of my franchisees have set up their own web sites to attract customers into their locations. Some have even begun to sell merchandise over the web. With all of the news lately about the collapse of the Dot Coms, is e-commerce a passing fancy? Should I start to offer products on the web? Do I need to establish any policies for my franchisees on setting up a web site for their locations? If I do, what are the best methods to control the content on their sites?

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Your questions are very timely as many franchisors today are asking themselves the very same questions. In-order to answer them properly, in this month's article we will look generally at E-Commerce and its potential benefits and risks to Bricks and Mortar companies. In next months article we will examine how franchisors are protecting their brands and creating benefits for their franchise system through the use of the Internet.

We're less than a decade into the Internet revolution. While the news lately have focused on the failure of many of the Dot COM companies and layoffs in Silicon Valley the reality is that we've only begun to make use of the internet. Most of the failures of e-commerce companies had little to do with the technology of the internet but rather to the business models employed by these start up companies and the amount of money they were allowed to experiment with. We seemingly fell into a belief that "burn rates" were an acceptable alternative to "profits". Burn rates only allowed us to measure how long a company could stay in business given the amount of cash they had left to "burn". Profits are really the only way to judge whether a company is going to prosper and survive. We tried to ignore the reality of Capitalism that measuring success by bottom line profit was necessary and that we could survive on growing market share alone.

Business failures in a revolutionary marketplace are fairly predictable. All you have to do is look back to the Industrial Revolution and the number of automobile manufacturers that came into being and the handful that remain today. While these start up automobile brands have vanished, except in museums, their technological advances are evident in every car and truck we drive today. The same will be true for the Internet Revolution.

Despite all that has been written about the use of the Internet, no one is really certain of the size of the marketplace – except that it is growing. According to the Department of Commerce e-commerce sales grew by over 49% from 1999 to 2000. Some independent research companies have put the growth rate at nearly double that

amount. To get a sense of the potential of the Internet you really only need to focus on two statistics:

- Greenfield Online: “60% of U.S. on-line consumers made at least one purchase on the Web for the last 10 consecutive quarters”
- Gartner, Inc: “Over 60% of all online transactions are never completed”

These two statistics mean:

- A majority of consumers who have access to the Internet are starting to use it to make purchases, and
- People are still only browsing and using the Internet to get information about merchandise and services that are available

Once all of the issues (both real and perceived):

- About information security (How can I protect my credit cards and other personal data?)
- About speed and accuracy of fulfillment (How soon can I have my order?) and,
- About reverse fulfillment (How do I return what I don't like?)

are solved the real potential for the Internet will be upon us.

What this means to a franchisor is that developing, controlling and supporting their brand on the Internet is going to become even more important than it is today.

Some of the key lessons we have learned about e-commerce is that getting on line first never really mattered. With few exceptions those latecomers to e-commerce – the companies that had bricks and mortar retail locations in place and added consumer web sites – are doing far better than those who only had an electronic offerings.

According to research conducted by Jupiter Media Metrix:

- 59 percent of buyers would like to pick up their on-line purchases at off-line locations, and,
- 83 percent of on-line buyers would like to return their on-line purchases to off-line locations

There is a significant benefit for brands that can effectively link their on-line presence with their off-line locations. The ability of “Bricks and Mortar” companies to fulfill orders quickly and accurately from their existing warehouses and retail locations; the ability for

consumers to return unwanted merchandise easily to their local stores; and, for most consumers, the ability to research on-line what is available at each retailer and simply go down to their local store to make their purchases has provided an advantage to those retailers that had retail stores in place and have converted their business to a “clicks and mortar” consumer strategy.

The risks of poor on-line performance by the retailers that adopt a web strategy to their off-line locations are high though. According to Jupiter Media Metrix:

“ Poor on-line customer service from a clicks and mortar retailer will drive 70 percent of U.S. on-line buyers to spend less at the merchants off-line store”

What this means to franchisors is that how our brands are presented in cyberspace is no less and potentially more important than how they are presented in the “real world” of Bricks and Mortar. Just as the quality and consistency of our customer service on a local level impacts how well each store performs, the quality and consistency of our Web sites will have a dramatic impact on our overall brands.

For franchisors the message is clear.

- If you want to stay competitive or even viable, not having a web presence that meets your customer’s needs is not an option.
- Without a retail web offering both franchised and non-franchised competitors that have retail web sites will strip you of market share.
- You must control how your web site functions and that means quickly putting policies in place for how your franchisees can make use of the web site.
- Since the success of your e-commerce business will rest, to a great extent on the support of your bricks and mortar locations, and many of those locations are owned by franchisees, your e-commerce strategy needs to benefit your franchisees.

There are some limitations and potential pitfalls for franchisors in establishing a web site for their franchise systems. There are also a host of issues that must be addressed including whether a franchisor’s existing agreements with its franchisees allow them to enter into e-commerce and once established, how the web site will benefit not only the franchisor but its franchisees. We will take a look at these issues in next months article.