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Strategic Integration of E-commerce and Franchising

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Abstract: *The primary objective of this article is to discern the strategy implications arising from the incorporation of e-commerce by franchisors within franchise networks. Following interviews with key informants, an experiment was conducted to investigate the franchisees' willingness to continue investing in the franchise network after the franchisor introduces an e-commerce platform that excludes them. The long-term repercussions of integrating e-commerce into franchising networks include a diminished willingness among franchisees to sustain their investments. This may differ from the short-term acceptance of the franchisor's e-commerce initiative, primarily attributable to the substantial power imbalance between franchisor and franchisee, as well as short-term inertia inherent in relation-specific investments and franchise contracts. A significant challenge faced by franchisors is the choice between establishing a profit-sharing model or, ideally, a mutually beneficial win-win arrangement with franchisees. Alternatively, the strategy may consider allocating more resources to directly operated stores.*

1. INTRODUCTION

The primary aim of this article is to discern the enduring structural ramifications stemming from the evolution of electronic commerce within franchising networks, with the overarching aim of gaining a more profound understanding of the impact of integrating digital marketing into a company's comprehensive strategy. A series of semi-structured interviews involving both franchisees and franchisors was developed in Italy. In addition to that, an experiment was run to understand the willingness of franchisees to keep investing in the franchise as a consequence of the franchisor launching its e-commerce. This research shows that the long-term consequences of integrating e-commerce with franchise networks can diverge significantly from the initial short-term acceptance. This research aims to actively contribute to this ongoing discourse, by adding a longer-term view on the development of e-commerce, by enhancing both theoretical understanding and practical knowledge in the field.

In the immediate context, franchisees predominantly embrace this integration due to one of two key factors: either (a) a pronounced power imbalance between franchisors and franchisees compels the latter to acquiesce to a centralized e-commerce model with no engagement, or (b) it results from the inherent inertia intrinsic to franchise contracts. However, in the long term, franchisees are more inclined to exhibit reluctance in reinvesting in a franchise chain that excludes them from involvement in the e-commerce system.

This paper delves into the various solutions that franchisors can employ to preserve a sense of robust partnership within a franchise. A pivotal challenge for franchisors involves choosing between establishing profit-sharing agreements or other forms of mutually beneficial win-win arrangements with franchisees. Another alternative course of action that franchisors may inevitably

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confront is a heightened future investment in directly operated stores. In such a scenario, remaining franchisees may perceive their roles as less significant within the channel. Shifting ownership towards a greater number of stores directly managed by the franchisor has the potential to diminish the entrepreneurial value inherent in the concept and context of the franchising industry, which has been granted block exemption regulation status by the European Union.

Additionally, it is imperative to scrutinize the reactions of multi-unit franchisees, who oversee multiple stores and, in contrast to single-unit franchisees, wield greater relative power in their interactions with franchisors. Furthermore, multi-unit franchisees have a multitude of alternative business opportunities at their disposal should they choose not to renew their franchise contracts. Given that multi-unit franchising has ascended to the dominant form of franchising on an international scale, this issue holds relevance across diverse countries.

2. PROMISES AND ENCROACHMENT BETWEEN E-COMMERCE AND FRANCHISED STORES

Most franchisors, some years ago, decided to launch centralized e-commerce: when doing so, they promised not to compete against franchisees' physical stores, as they said that the main goal of that project was to promote the brand better for the benefit of all franchisees. Not necessarily they wanted to lie, as e-commerce only in the last years developed very strongly in all product categories; but the present market conditions and the context of retailing in general, and franchising in specific, will not make them easily fulfill that promise. The strong development of e-commerce of the last 10 years, mainly based on mobile internet connections of smartphones, in many cases above expectations of both franchisors and franchisees, created the conditions for which even franchised store chains that have some if not many stores in a certain region risk to be encroached by the e-commerce system. This is something that stores managers and franchisees started perceiving when they saw customers who, when inside stores, would try a product and at the same time browse an internet e-commerce site to check and search for a lower price or different ranges related to the same product. Such customers could take advantage of the service of the franchisee and then buy the product from an e-commerce, online, store.

Franchising traditionally relies on granting exclusivity within protected territories to system members (franchisees). On the contrary, e-commerce, as a business strategy, allows for a broader geographical reach across different markets without adhering to territorial boundaries. This incongruity presents challenges unique to franchising organizations when integrating e-commerce into the system, leading to encroachment, territorial overlap and conflicts not faced by other kinds of companies.

3. LITERATURE REVIEW AND GAP

Although e-commerce has the potential to enhance the operations and profitability of franchise businesses, the convergence of these two dynamic business sectors presents legal and commercial challenges, particularly regarding issues of encroachment (Terry, 2002).

Analyzing the e-commerce strategy within the realm of franchising holds crucial significance for several reasons. Firstly, in the contemporary business landscape, all businesses, including franchising, seem to need an e-commerce strategy to reach a larger number of customers and to increase efficiency and effectiveness in operations and marketing (Cliquet & Voropanova, 2016; Perrigot et al., 2017).

E-commerce has the potential to reduce the need for franchises as a means to achieve business growth and market penetration. According to this argument, if the majority of goods were purchased online, the demand for physical stores would decrease, consequently lowering the costs associated with market entry. From the perspective of resource scarcity theory, it could be argued that as the need for significant capital inputs diminishes, so too would the need for franchises (Dixon & Quinn, 2004; Watson et al., 2002).

On the other hand, adopting a dual-marketing perspective, e-commerce is seen as a platform that provides opportunities for franchises to promote their brand, products, or services to customers and to recruit franchisees (Cedrola & Memmo, 2009). Moreover, from a system perspective of the business, franchised retailers (considering together franchisees and franchisors) might derive long-term benefits from e-commerce if they can leverage the advantages of an integrated multi-channel approach, as the Internet enables companies to establish relationships with their customers (Kaushik et al., 2018).

The literature on franchising started some years ago, at the beginning of year 2000s, by analyzing the degree and the process of introduction of e-commerce systems in franchising. Kremez et al. (2019) investigated the impact of e-commerce within the realm of franchising and its impact on the dynamics between franchisees and franchisors. The primary objective was to scrutinize and pinpoint effective e-commerce strategies that franchise networks could adopt and sustain, to develop a digital business. The data collection process comprised various qualitative stages: firstly, semi-structured interviews with franchisors, and secondly, a moderated industry forum where franchisors and industry experts openly deliberated on their e-commerce strategies and concerns. The initial theme centered on the involvement of franchisees in formulating and executing e-commerce strategies, the second revolved around general franchisee sentiments and apprehensions, and the third focused on the introduction and implementation of an e-commerce strategy within an existing franchising model. The model that was devised would be useful to explain the franchisor's strategy to increase the franchisees' probability of acceptance of the e-commerce; a first important gap in that and other pieces of research is that the short-term context (mainly the adoption of e-commerce from the franchisor point of view and the short-term acceptance of e-commerce from the franchisees' point of view) was studied but not very much insight was present on the long-term effect on the franchisor-franchisee relationship.

Despite global trends indicating steady e-commerce growth and, to some extent, a decline in traditional retail sales, franchisors have grappled with identifying the most effective use of e-commerce for their systems. Not being able to rely on the relatively more solid knowledge coming from research, franchisors often solve the strategic dilemma of whether and how to jump on the e-commerce fast train by introducing an independent e-commerce system, totally centralized and independent from the activity of physical stores. For sure there has been some scarcity of empirical research in this field and there is a clear need for further investigation into e-commerce practices in franchising, as it has not been investigated enough or at all about the balance between the potentially disruptive positive effect of the launch of an e-commerce business and its other side of the coin, the potentially equally disruptive, but in a negative way, effect, on the relationship between franchisor and franchisees. Also, by analyzing the process of introduction of e-commerce in the franchising context, there has not been a strong analysis of any theoretical framework to support the analysis: for example, the basic idea behind the analysis of the process of e-commerce introduction was that if a franchisor manages to reassure a franchisee about the non-threatening impact of e-commerce on their business, then franchisees are more likely to accept it.

The expansion of both franchising and e-commerce as distinct business strategies, coupled with the inherent challenges in operations, marketing, and legal obligations that may arise when franchising firms establish their own online marketing and retail channels, underscores the critical need to address this research gap. Simplistic solutions, like as not getting franchisees involved in e-commerce and separating e-commerce from the physical store management, are very risky for the future development of a franchising store network. For that reason, scholarly contributions some years ago specifically highlighted the necessity for further investigation into the utilization of e-commerce in franchise networks, considering the growth potential of e-commerce in franchising and the associated challenges faced by both franchisors and franchisees (Perrigot & Pénard, 2013).

Some of the older research questions in the literature have already become less relevant. Some time ago research questions were on matters such as the likelihood and the speed of the adoption of e-commerce in franchising companies, as some researchers had the idea that the adoption of that innovation was slower in franchising than in other kinds of companies. Nowadays that question is no longer relevant, especially from a managerial point of view, as most franchising companies have already adopted e-commerce and digital marketing tools. Thus, now that franchising companies engaged in e-commerce that become a very important channel, the questions are about how is the adoption of e-commerce affects franchise relationships and franchisees' perception of the future business opportunity that franchising could still represent for them in the new context where digital marketing is getting more relevance in the business.

4. METHODOLOGY

From the analysis of the literature, and the evidence of the very fast development of e-commerce in most industrialized countries, we thus developed two hypotheses, regarding the long-term consequences of the introduction of centralized e-commerce in a franchise network.

H1: Franchisees perceive centralized e-commerce as decreasing the expectations for their future profitability

H2: The decrease in expectations for future profitability reduces the willingness to continue investing in the franchise business

From a methodology point of view, researchers (Cedrola & Memmo, 2009; Kremez et al., 2019) developed a positive attitude toward qualitative research for the topic of the introduction of e-commerce into franchising organizations, to go more in-depth into such a complex matter about which the main variables had not been clearly identified; on the other hand, it is clear that more quantitative research, such as surveys or experimental methods could give some ideas about the magnitude of specific issues in the franchisee-franchisor relationship. For that reason of complementarity, in this paper, we report results about both a preliminary qualitative piece of research and quantitative research.

Qualitative research. The qualitative research has been developed with interviews with both 20 franchisees and 5 franchisors in Italy. Questions about both the kind of e-commerce that was run in the franchise, if totally managed by the franchisor or not, and about franchisees' perceptions about that were key to these interviews.

Franchisors' managers were directly interviewed belonging to the five following industries:

- Apparel,
- Fast Food,
- Office products and services,
- Houseware,
- Furniture.

For each franchisor, four franchisees were randomly selected and directly interviewed among those located in the area of north and centre of Italy, which is the most developed area of Italy and accounts for 80% of the business.

Semistructured interviews, lasting approximately forty minutes each, were developed with those franchisors and franchisees, to understand three areas of the relationship between franchisors and franchisees: at the beginning of the interview, in a warm-up section, some questions were asked about the state of the franchise business performance; then, in a second part of the interview, the short term reaction of franchisees to the launch of the centralized e-commerce was the focus of a few questions; in the third and final part of the interview we investigated about the perception of franchisees (level of perceived threat on the physical retail business) and franchisors (ideas about strategies to mitigate the negative perceptions present among franchisees, involvement strategies) about the long term consequences of the overlap between centralized e-commerce and franchisees' willingness to keep investing.

Quantitative research. In addition to the qualitative research, to check and add evidence to prove/disprove the hypotheses, an experiment was run to understand the willingness of franchisees to keep investing in the franchise as a consequence of the franchisor launching its own e-commerce. We now give some reports about the way the experiment was built, starting from the respondent selection and then describing the experiment development.

a) The first stage of an experiment is the selection of respondents. A franchise network was described to some candidates, selected among university undergraduate students of management to become experiment respondents by the instructor: the instructor described many elements of a business format franchising, that is attractive for people who want to develop a small entrepreneurial activity in retailing. The format described is very similar to a few existing companies, that operate with a very good market share in the business of underwear and clothing. As it usually happens in business format franchising, the format that was described to respondents for the experiment includes:
   - A license to use a store name.
   - The provision of a certain number of elements for the store layout and product display.
   - Some information systems, software, know-how about business and accounting, and training.
   - A course about people management.

b) After describing the business format, it was asked to respondents about the likelihood with which they would engage in such a business, in case their family accepted to make available for them the sum of money required from the franchisor to set up the physical store, to set up the company, as a working capital for the business, and as an entry fee in the franchise. Those, about 40%, who said they would invest and develop the business were so selected for the real experiment.

c) The real experiment was so run on 120 respondents, with ages in the range of 20-23 years old, almost equally including men and women (48% to 52%); the experiment was run simulating three years of business. For each year we simulated a short speech from the franchise manager about the business performance of the franchise and the specific store of the respondent. So, to each of the respondents, simulating a year-by-year report, it was told, also showing some pictures of a real store, the store proved to be successful, and sales and profit grew constantly, even if the effort from each of them (the franchisee) had to be strong, something like 12 hours of work every day, including most Saturdays and Sundays. The experiment then developed as a four-group analysis, with each respondent randomly assigned to a group, respecting an equal proportion of gender in each of the four groups of 30 people.

Here are some details about the treatments of the experiments: we used in the experiment as treatments two events: the most important one for our research, that is to say, the introduction of a centralized e-commerce; and secondly, some human resource management negative events during the relationships. This latter treatment of the human resources problem was used to check if willingness to keep doing the franchise business could be influenced by other negative events.

The reason for the four groups is that we wanted to test if in a positive (all groups had been informed that the business was getting positive results) but also realistic context, the introduction of centralized e-commerce could change the perception of franchisees about the future in the business. To make the context more realistic, we introduced for all groups the information that franchisees' performance can only be obtained by working very hard. Also, in one group we introduced information about "some negative events", in specific managerial problems, such as human resource management problems, to check if that could have a relevant or even stronger impact than the centralized e-commerce on their willingness to keep on doing that business:

First group: Good performance + hard work (the control group).

To a sub-group of 30 people, randomly selected among the 120 people that participated in the experiment, it was confirmed and told again that during the period of the first 3 years, the relation with the employees had been ok and the business had gradually developed well.

Second group: Good performance + hard work + some negative events (second control group to check the impact of negative events on the future willingness to keep in the franchise business).

To a sub-group of other 30 people, randomly selected among the 120 respondents, it was told that during the period of the first 3 years some employees had created some troubles for the store: in one case one employee was caught stealing some merchandise, in another case one employee was on leave for 6 months without real reasons (but with salary) but with some protection from the trade unions, that did not allow the franchisee to lay him off. These events made business management more complex but did not significantly hurt profitability.

Third group: Good performance + hard work + new e-commerce of the franchisor.

To a sub-group of other 30 people, randomly selected among the 120 respondents, it was told that during the period of the first 3 years, the relation with the employees had been ok and the business had gradually developed well. It was then told that towards the end of the three years the franchisor decided to launch its e-commerce site for the same brand, which was not providing any profit to the business of the franchised stores, but just to the franchisor central business.

Fourth group: Good performance + hard work + some negative events + new e-commerce of the franchisor. To a sub-group of 30 people, randomly selected among the 120 respondents, it was told that during the period of the first 3 years, some employees had created some troubles for the store: in one case one employee was caught stealing some merchandise, in another case one employee was on leave for 6 months without real reasons (but with salary) but with some protection from the trade unions, that did not allow the franchisee to lay him off. We also told them that these events made business management more complex but did not significantly affect the good level of profitability of the franchised store. It was then told that towards the end of the three years, the franchisor decided to launch its e-commerce site, which was not providing any profit to the business of the stores, but just to the franchisor central business.

d) If finally asked all 120 respondents to answer about how they felt about the opportunity to renew the franchise contract, which required an additional investment that was going to capture almost 50% of the net profit obtained in the three years. The respondents who had been told about a new e-commerce site directly managed by the franchisor, it was asked about what they felt about that e-commerce business of the franchisor.

The first item, measured with a 5-point Likert scale, about the perception of future performance, was the following: "I think that, all things considered, I have good opportunity for future performance in this franchise"

The key item for our dependent variable, measured with a 5-point Likert scale, was the following: "I think that, all things considered, I would renew the franchise contract".

5. RESULTS

Qualitative research. The preliminary interviews showed that both franchisors that have not launched e-commerce and those that have already launched it are concerned about the importance of the franchisees' reaction to that. The franchisor that has not launched the e-commerce said that the main reason for that is not to overlap with physical stores, which are mainly franchised stores; the franchisor also said that they prefer to use the internet site to create business for the franchisees, who are the real owner of the business and should keep being motivated and investing in the business.

Most franchisors that launched the e-commerce are telling the story that with a click-to-store system of delivery, franchisees will have an opportunity to increase their business, by cross-selling other products to customers coming to the store to collect the e-commerce package. The trouble is that franchisees do not buy this story very much, as they say that customers might not be easy to approach for selling other products, as they come to just collect another package, often in a hurry or with the car parked for a minute in the middle of the road.

All 20 interviewed franchisees are concerned with the fact that e-commerce is a good business opportunity and that a modern company cannot operate without it; but all of them also said that they must be involved in that growing business; they expect the physical retail business not to grow at the same rate as the e-commerce, thus they perceive that being excluded from the e-commerce sales and profit will significantly decrease the profitability expectations of their business.

The strategies to get franchisees involved in the e-commerce business that were proposed by the franchisors were mainly related to the system of click-to-collect in the store. The strategies that franchisees proposed as possible solutions to the encroachment problem were more related to direct profitability for them coming from each e-commerce purchase, such as a percentage of e-commerce sales or direct relationship with customers in the e-commerce platform.

From all the interviews it is clear that the centralized e-commerce creates encroachment and that the franchisees' point of view is that a) there is a problem and b) the problem cannot evaporate over time but can only become stronger over time.

Quantitative research. Results of quantitative analysis can give us a more in-depth analysis of the context in which willingness to invest can be kept, as the willingness to keep on investing in the franchise after the first three-year period is here reported.

In a 5-point Likert scale of disagreement-agreement, the first control group had the largest average response (4.27). This group, by perceiving that the business had been successful, had no real reason to quit, other than just being tired of the hard work necessary to run an entrepreneurial business. Very few potential franchisees would quit such a business. The second group showed similar average responses to the 5-point Likert scale (4.3), that did not in fact significantly differ from those of the first group (significance level= .427).

This means that the profitability of the business was the main element that was considered for the contract renewal, even when considering that hard work is necessary for a franchisee in retailing. Even if some negative events can make business life more complex, potential entrepreneurs take for granted that such things can happen. Thus, a successful business is a prerequisite for motivation to keep investing, even when there are negative events when such events are both under the control of franchisees and can be solved in a relatively short period.

The third group and the fourth group were those where we introduced the treatment of the launch of the centralized e-commerce: the two groups had similar responses with each other (respectively, on average, 2.70 and 2.63), with no significant difference with each other averages (significance level=.098). This tells us that the negative human resources events had no impact on the dependent variable. But, most importantly, the average levels in the Likert scale that measured the willingness to keep on investing in the franchise, were much lower than what we found in the first two groups. This means that centralized e-commerce makes franchisees perceive a much lower future interest in the business.

If we compare the means of the willingness to keep investing in the first two groups all together (group one plus group two, an average of 4.28) with that of the two other groups (group three plus group four, on average 2.67), we find that the difference is statistically very significant (sign. level=.000).

Thus, it was clear that the willingness to invest would decrease significantly in case franchisor launched its own e-commerce, as franchisees would see the new e-commerce from franchisor as a potential threat to their business; they would also perceive a loss of focus of the franchisor that, instead of being a partner to the franchisees, would think about developing its own business, also bypassing the franchisees. The perception of loss of control on the potential future performance of the business is another important matter that can decrease their motivation to stay in the franchise, as this was from the beginning described from franchisees during preliminary interviews.

Something very similar happens when we analyze the perception of franchisees about their future performance: groups 1 and 2 perceive a much better future performance than that of respondents in groups 3 and 4 (with no significant difference between group 1 and group 2 or between group 3 and group 4). The differences among the means that are reported in Table 1 are very clear about that. The first hypothesis (H1: Franchisees perceive centralized e-commerce as decreasing the expectations for their future profitability) is thus verified.

Table 1. Future performance perception of franchisees

	Mean (1-5 Likert scale)	Standard Deviation	Significance of the difference between groups 1 and 2 and between groups 3 and 4	Significance of the difference between groups 1 + group 2 and groups 3 + group 4
Group 1	3.77	.00	.161	.020
Group 2	3.73	.79		
Group 3	1.13	1.14	.487	
Group 4	1.53	1.31		

Source: Own research and calculation

Table 2. Willingness of franchisees to keep investing in the franchising network

	Mean (1-5 Likert scale)	Standard Deviation	Significance of the difference between groups 1 and 2 and between groups 3 and 4	Significance of the difference between groups 1 + group 2 and groups 3 + group 4
Group 1	4.27	.64	.427	.000
Group 2	4.30	.70		
Group 3	2.70	.95	.098	
Group 4	2.63	.27		

Source: Own research and calculation

Table 3. Correlation between franchisees' perception of their future performance and willingness of franchisees to keep investing in the franchising network

	Pearson correlation in each group	Significance level	Person correlation in the whole sample of 120 respondents	Significance level
Group 1	.64	.00	.85	.00
Group 2	.65	.00		
Group 3	.77	.00		
Group 4	.79	.00		

Source: Own research and calculation

The Pearson correlation (Table 3) between the perception of future performance and the willingness to invest is very significative and strong in the 120 observations (a correlation of .85 with a significance level of .00) and this happens for all groups, respectively with correlations of .64, .65, .77, and .79, always with significance levels of .00). This emerged together with what we discussed above and shown in Table 2, the much lower average levels of future performance and willingness to invest in the group 3 and 4, those where we have been treated with the event of the launch of the centralized e-commerce. Even if the association between two variables does not necessarily mean a causal relationship, the sum of Table 2 and Table 3 creates a very strong probability that the second hypothesis H2 is verified: The decrease in expectations for future profitability reduces the willingness to continue investing in the franchise business.

6. FUTURE RESEARCH DIRECTIONS

In this section, we discuss future and emerging trends related to e-commerce and digital marketing in franchise networks.

The theoretical gap has to be addressed regarding what framework can better represent and explain franchisor behavior when launching an e-commerce project without getting franchisees involved. The main hypotheses could be control theory and resource dependence theory, which could push franchisors towards some more vertical integration as digital technology allows them to disintermediate the channel, go and sell directly to customers, and to depend less on franchisees for that. According to that view, the e-commerce project would just be part of a new more vertically integrated structure and strategy for channel management.

Some more in-depth analysis should be done to understand the heterogeneous reaction of franchisees to the development of an e-commerce system managed by the franchisor; this is to say that a different active response from multi-unit franchisees, that are dominant in most franchises, could be tested as different from that coming from single-unit franchisees. This different (stronger) response of multi-unit franchisees could depend on the stronger bargaining power of multi-unit franchisees in relation to franchisors, from a larger number of investment alternatives they might have, but an opposite reaction (weaker response) could also depend on the larger scope of the territory and the business: multi-unit franchisees could be less affected by a franchisor's e-commerce as they might have more resources to keep the brick-and-mortar channel on track.

One emerging trend that should be somewhat connected to e-commerce and franchising is the unified international context for e-commerce in the European Union. EU regulation, starting from pricing and logistics, tries to make steps towards a single market even for electronic commerce. How this can be managed from franchisors and franchisees operating only in some of the EU countries, still has to be analyzed in future research, in specific with an integrated view of traditional channels and digital stores.

7. CONCLUSION

In this section, we engage in a discussion regarding the comprehensive coverage of the paper, and we present some concluding remarks. The primary objective of the paper is to contribute to the understanding of the long-term impact of e-commerce on franchise systems.

The era when independent franchisees launched their own e-commerce endeavors has come to an end, as the life cycle of e-commerce has progressed beyond its initial spontaneous stage when companies, even those of smaller scale, eagerly sought entry. E-commerce has now matured, characterized by industry consolidation and the implementation of advanced technologies and logistical systems. The landscape of competition in e-commerce and digital marketing has evolved to the point where individual stores find it challenging to compete with larger organizations. Consequently, a thorough analysis of e-commerce projects needs to focus on those developed by entire franchise systems. In such organizations, franchisors assume the roles of project and channel leaders, also determining whether franchisees should be involved in these initiatives.

In numerous instances, after attempting to comprehend the intricacies of e-commerce, franchisors choose to operate these businesses independently of franchisee contributions. The initial acceptance by franchisees of such franchisor-independent ventures often hinges on the relative strength of franchisors in the franchisor-franchisee relationship and the relationship-specific investments made by franchisees, which introduce a level of inertia into the relationship. Examining the long-term impact of such projects on the franchise involves analyzing franchisees' willingness to continue investing in the franchise, including renewing contracts upon expiration and upgrading stores and equipment as necessary.

We approached this investigation through qualitative and quantitative research, utilizing in-depth interviews with franchisors and franchisees and conducting experiments introducing e-commerce innovations in a simulated franchise system. Both methods revealed that franchisees are significantly less inclined to maintain or renew their investments in the franchise if the e-commerce project does not involve them in a way that positions it as a growth opportunity rather than a threat.

The preferred system for franchisees might depend on the type of franchisee in question. Multi-unit franchisees managing a larger organization, typically encompassing 3-8 stores in the same area, might favor involvement in a centralized e-commerce system. In this system, once a customer connects, the business is passed to the local franchisee who then manages the online sale directly. Smaller franchisees, such as single-unit franchisees, generally prefer a click-to-store system or a percentage on a centralized sale, resembling the role of a local agent promoting the brand and receiving a share from the overall company sales with customers originating from their local territory.

This evidence holds managerial relevance. Franchisors who anticipate the continued importance of physical stores in their business must make informed decisions about e-commerce. Launching an e-commerce system that excludes franchisees will eventually necessitate significant additional investments in the store network, beyond the pilot stores. In many cases, franchisors may find themselves compelled to buy out previously franchised stores, as franchisees may decide not to renew contracts or redevelop stores, even when such actions are necessary.

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