Analysis on the Digital Economic of the Third-Generation Franchise

Mingxiao Zhao[1]

[1]1097899302@qq.com, 13500707769

[1]Industrial and Commercial Management Department, Dalian Vocational and Technical College, Dalian, China

Abstract: The success of big data plus cloud computing in the Internet economy has brought great challenges to traditional businesses. The franchise model makes use of in-depth consumption data mining and the calculation value of big data to form a flow and business closed-loop of franchise activity. When the loop iterates to the stage of "digital franchise", it is conducive to effectively realize the unification of standard and individuality, scale and efficiency, development and quality, and flow and precision of franchise.

Key words: Digital; franchise; economic; value;

1 INTRODUCTION

Since Pei Liang, President of the China Chain Operation Association pointed out for the first time that "in the field of franchise on May, 2018, China has entered the third-generation franchising, that is, digital franchising", the industry associations have devoted to advancing the relevant researches on digital franchising and empowering franchised companies with the "Third Generation Digital Franchise Report (2019)", "Digital Franchise Investor Portrait and Behavior Research Report (2020)" and "Digital Franchise Guide (2021 Edition)" successively launched. However, the researches on "digital franchise" within theoretical and educational circles remains lagging without enough relevant materials to learn from, which is not conducive to the learning, reference and related talent training of growing "franchised companies". Therefore, the economic characteristics and commercial value of digital franchising are analyzed in this paper to arouse more in-depth discussions in the theoretical circle, promote the rapid response of the education circle and iterate the teaching content of related subjects.

As the digital economy grows in a rapid way, with the help of big data, cloud computing and other technologies, the franchise model has realized all-round guidance for franchisees and in-depth mining of consumption data, promoted the efficiency of the franchise system, and realized the digital development of franchise.

Franchising has developed for over 150 years with the first generation of "franchising product brands" and the second generation of "franchising business modes". On the China Franchise Expo in May 2018, Pei Liang, President of the China Chain Store & Franchise Association (CCFA), stated that China has entered the third generation of franchising, that is digital franchising.

Although it was affected by Covid-19 in 2020, the sales volume of Top 100 Franchises triggered a year-on-year decline for the first time since CCFA undertook an investigation into these franchises. However, due to the epidemic, a large number of small enterprises and individual stores could not connect with each other well so the top enterprises would have more opportunities. The total number of Top 100 Stores in 2020 increased by 9.35% compared with that of 2019, among which the number of franchises grew by 9.95%(as show in table 1) and the number of direct-sale stores increased by 4% both than the previous year[1].

TABLE 1 BIG DATA OF TOP 100 FRANCHISES IN 2020

The total sales volume	The total number of stores	The number of franchises	The number ofstores exceeds 1000.
Declining by 5.47%	Increasing by 9.35%	Year-on-year increasing by 9.95%	Close to 50%
The number of brands improved by the business volume in a single store	**The franchises withthe business operation over 20 years**	**The contract period of Top 100 Brand Companies is 5 years and above**	
Close to 30%	Reaching 50%	Around 80%	

Source: Phoenix Net: Finance

2 ANALYSIS ON THE DIGITAL DEVELOPMENT STAGE OF FRANCHISE

In the first stage of digital franchising, digital tools are applied in some links of franchising such as the construction of franchising systems, the calling for alliance business, the location of stores, the marketing of VIP and the analysis of consuming data. The original business and procedures of franchising enterprises do not need to experience a revolution and the utilization of digital tools effectively improves the efficiency of application. In particular, the data in the process of franchising can drive the healthy and high-efficient development of the core business of franchising, namely the franchise transaction.

The second stage is the digitalization of the franchise transaction. It is the digitalization that reconstructs the franchising system and it is an upgrade based on the first stage and an all-rounded reconstruction of the franchising procedures. In the transaction of franchise, digital technologies are applied to such links as the demand collection, the information announcement, the transaction matching, pricing services, transaction confirmation, payment services, payment confirmation, settlement of accounts and follow-up services to collect data, remind users of information tips or re-warning, behavior record and data statistics. These digital tools and technologies can make the transaction more intense, scale-based and ecological [2].

3 ANALYSIS ON THE ECONOMIC CHARACTERISTICS OF DIGITAL FRANCHISE

Digital franchising is that digital technologies reconstruct franchising. It can directly reach consumers through digital platforms and monitor franchisees online throughout business

procedures by information technologies. Meanwhile, a number of digital tools are applied to promote the effective management of franchisees.

3.1 Digital franchising can reach more high-quality entrepreneurs precisely

Franchises recruiting high-quality franchisees is an important link that can improve franchising quality from the source. Franchises should communicate with their potential franchisees more extensively so that franchisees can more easily understand franchise projects. At the same times, franchises can have better capability to precisely judge potential franchisees.

In the traditional recruitment of franchisees, franchisors need to carry out offline promotion in cities, distribute brochures, and visit stores again and again to achieve high-quality franchising effects. However, digital franchising features a wide range of digital tools which are widely applied in many links such as the release of publicity materials, publicity, recruitment, marketing, online interaction of franchisors with other stores, and the capture and analysis of franchisee information. The franchising headquarters attach great importance to the building of brand assets in the digital era, and make the brand familiar, favorable and reliable to entrepreneurs through online marketing, thereby facilitating the achievement of their decision of franchising.

Franchisors can directly contact with franchisees, understand the ways that the target consumers usually obtain information, and then selectively release recruitment information through big data analysis and research. For example, according to the "Portrait of Chinese Franchisor" released in 2021, potential franchisees in the catering industry choose familiar brands (they see more advertisements and they are recommended by acquaintances) to control franchise risks; this is an important factor that affects their decisions to join in the franchising; and their entertainments are richer like eating and drinking, chasing trends, chasing dramas, and playing games (see Figure 1 for details) [3]. Through this report of big data analysis, franchised brands in the catering industry can publish brand advertisements and recruitment information in multiple ways to contact with potential franchisees more.
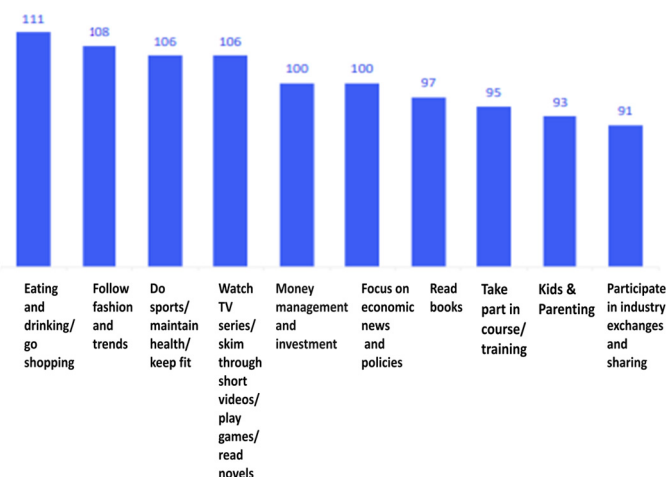

Figure 1. When you are resting, what are you more willing to spend time on**?**

Source: China Chain Store & Franchise Association (CCFA)

3.2 Digital internet makes it possible to monitor franchisees with high quality

As for the traditional franchisors, the headquarters' support and supervision of franchisees mainly rely on face-to-face instruction or on-site management by supervisors. Franchisees usually have problems of high cost, poor controllability and unstable store service quality, showing that the quality of supervision is limited by the quantity and quality of supervisors. In the digital franchising, the headquarters has a method combining online and offline management, which can ensure that the entire process is online, monitored and guided at any time, questions can be answered and at any time. Besides, the operation quality of franchisees can be greatly guaranteed.

The headquarters can not only complete online supervision, but also help the franchisees to analyze the "benefit" from the sales data of the franchisees at different stages, the regional consumption capacity and economic development and income changes. Moreover, they can also combine the results of data analysis, propose targeted suggestions for improvement, give franchisees the timeliest, accurate and effective guidance by the big data technology.

3.3 Digital tools can effectively improve the consuming experience

Optimizing the management of franchisees is another advantage of digital franchising. Improving consuming experience is the ultimate goal of digital franchising. Thanks to the digital franchising which feature digital tools and solutions, the headquarters can provide franchisees with more advanced tools for management and services to help them improve quality and efficiency [4].

The traditional franchising business is characterized by offline operation, and franchisees rely on the products, brands and business modes provided by the headquarters to expand the market. In contrast, digital franchising connects online and offline business and form a closed business loop, making franchisees become an indispensable link in the entire business process and the most valuable front-end market for online businesses. Based on the establishment of a closed business loop, franchisors and franchisees continue to build and develop new business capabilities, including the digitization of products, services, personnel and scenes, and strive to shape the franchise brand as an omni-channel service brand. Digitization can simplify and optimize the service process of stores, improve customers' in-store experience, enrich the services and functions of franchised stores, and allow customers to enjoy online and offline products and services anytime and anywhere.

4 ANALYSIS ON THE COMMERCIAL VALUE OF DIGITAL FRANCHISE

4.1 Digital franchising effectively balances the relationship between standardization and efficiency

Pei Liang, President of CCFA, said, "The franchise market must develop with high quality, and the primary thing to consider is standardization of the franchised entrepreneurs, and digitization is the first thing to reach standardization. [5]"

The second generation of franchising focuses on management and control with its goal of realizing standardized operation which refers to controlling the quality of franchised stores to

ensure the unity of franchisors and franchisees and guarantee the same quality of the products and services provided by franchisees.

The standardization of franchisees is presented by the fixed procedures of project operation and the execution of employees in franchised stores, and this is often the difficulty of building a franchise system. Although franchised stores achieved standardized operations, the products and services that follow the same pattern reduce the regional adaptability of the stores, which declined the service quality and efficiency greatly.

For example, although China boasts a huge market for the catering industry, the strong regionality of vegetable varieties worsened by the difficulty to form standardized and large-scale catering management results in the low-level chaining. According to Euromonitor data, the penetration rate of catering chaining in China is only one-fifth that of the United States, and the market share of top players in the industry is also far below the international level (CCFA Catering Industry Digital Research Report (2021)) . With people born in and after 1995 becoming the main consumers (see Figure 2 for details), experience richness and diversity are more emphasized in their catering consumption. They tend to choose different types of restaurants according to different dining out scenarios, which attaches more importance to the big data analysis and precision marketing of the future catering industry. Given this situation, the digital franchise model will inject vitality and energy into the development of the catering chaining.
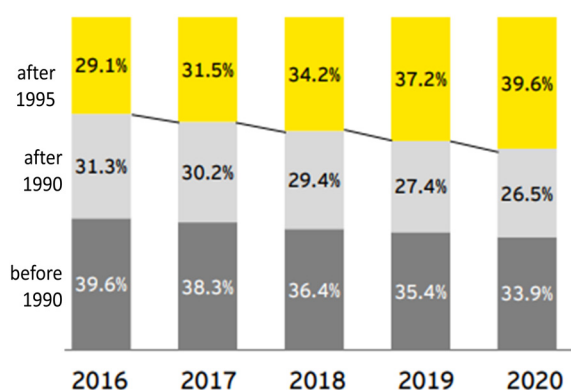

Figure 2. The age structure of catering consumption in China
Source: Analyzed by Ernst & Young. <2020 Catering Big Data in China> by Meituan

In terms of future digitalization construction, the digitalization needs for the front-end aspects of "membership and increasing engagement" and "price optimization and promotion" share a higher priority than "menu research &development", "store location and development", "procurement, prediction and replenishment", "central kitchen management", "store operation" and other back-end supply chains among interviewed companies (see Figure 3 for details).
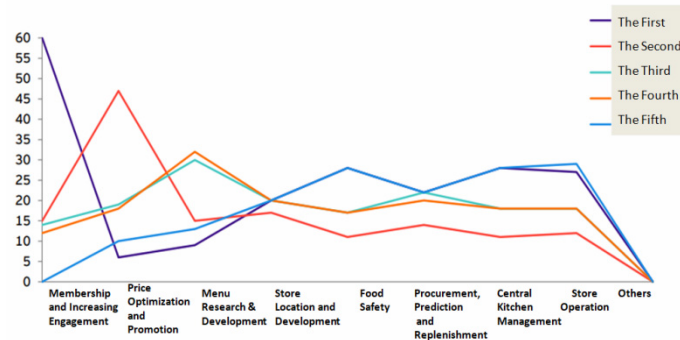
Figure 3. The fields where the company wants to get digitalization assistance (weighted average ranking)
Source: CCFA 2020 Investigation on Operation of Chinese Chain Catering Enterprises

Digital franchising can effectively balance the relationship among standardization, quality and efficiency. In the context of digital franchising, all businesses can be digitized by using big data and cloud computing capabilities. These quantitative figures calculated by big data provide a scientific basis for the formulation of more accurate and efficient standardization to reject empiricism. The digitalization of customer information which means precisely grasping and labeling basic information of customers is the starting point of digital franchising. Supported by these data, the franchising headquarters can combine the analysis of consumer data in franchised stores to make precise product combinations and promotion strategies, and this can achieve unified individualization.

4.2 The shared data of digital franchising drives the information endowment

The most outstanding characteristic of digital franchising is that the headquarter can use its powerful digital data platform to directly reach consumers and it not only grants franchise rights, but also brings customer traffic to franchisees by sharing consumer information.

The first and second generations of franchising are linear authorization systems, which means franchisors grant products, brands, and business modes to franchisees so that franchisees can directly face consumers to complete product services. During the project operation, franchisors provide franchisees with training and supervision, and maintain the unity, integrity and credibility of the franchising system. By contrast, the third generation of franchising is a shared authorization system, which refers that franchisors use their social platforms to directly contact with consumers and establish a customer relationship system so that consumers can also use the online platforms of franchised brands to give a direct feedback of consuming experience data. The headquarter shares customer information with its franchisees through the big data system, and directly empowers franchisees with the system of information management. Franchisees provide direct services to consumers while theheadquarter utilized advanced management tools and service tools to help franchisees improve service quality and efficiency.

The third-generation shared authorization system allows franchisees, franchisees and consumers to communicate information with each other without barriers, and eliminates the asymmetry of information between subjects in the process of franchise transaction. It opens up

the information islands of each node and forms a closed business loop of information, making data analysis and utilization more timely to greatly reduce the threshold of franchise authorization and the cost of delivery and implementation. Thus, a rapid response to consumers and franchisees can be achieved and franchisees can have stronger support capabilities.

4.3 Digital franchising reconstructs franchise, which improves the management efficiency

The core of franchising is to grant and use franchise. "The digitization of franchising" is not a simple digital application of the franchising process. Instead, it refers to using digitalization to create core links such as franchise granting and application while reconstructing the business mode and value chain of traditional franchising by digital reconstruction of franchise to ultimately improve the efficiency of franchise management.

Digital endowment for franchising is the process of upgrading the system of operation management and the business modes of the franchising headquarters. It includes training supervision system, development and marketing system, data security system, and iterative business modes. For digital franchising, the franchising headquarter exports not only business brands and modes, but also consumer flow; it participates in the operation of both stores and consumers [6].

Consumer data supports the creation of personalized stores so consumers can get a better consuming experience. Consumers can use the data platform of enterprises to reserve the content and time of goods or services online, which saves time and improves the marketing efficiency of enterprises. Besides, they can get a better consuming experience in their consumption process.

The management system of big data in franchised enterprises can increase the convenience and transparency of consumption. The data platforms allow franchisees far from the headquarter to immediately respond to each sales transaction from the settlement system of headquarters, and clarify the accounting data of "Franchise Royalties". Digitization can make prices and promotional activities of franchised stores more transparent, presented by the fact that consumers can find relevant information at any time through the official "WeChat public platform" or official Weibo or official websites of headquarters.

4.4 Data analysis of digital franchising reduces the error rate of empirical decision making

The most outstanding advantage of digital franchising is that it can be rationalized and documented by data analysis, showing that managers have evolved from empirical qualitative analysis to quantitative analysis under data measurement.

First, through the grasp and analysis of digital information, franchisors can use a large amount of development data of franchised stores to make the location and development of franchised stores and the selection of franchisees more accurate. This not only greatly simplifies the complexity of franchised-store management, but also significantly speeds up the development of franchised stores.

For example, Meituan provides a location-selection product which has comprehensive analysis capabilities for catering enterprises that have joined the business mode of franchising. Thanks to the product, a heat map of consumer flow can be generated to the coordinate distribution map

of stores according to the product types of catering stores, and to quickly identify the fierce peer competition within the project location area (see Figure 4 for details). Besides, it can raise the success rate of franchising of the headquarters by 10%, and increase the franchising fee income by over one million per month, which improves the experiencing effects of franchising services. It also shortens the franchising cycle and increases its service scope from an average monthly service of 25 stores per person to 30 stores per person with an increase of 20%. In addition, it reduces the requirements for the franchising personnel while the traditional personnel of site selection should have more than 5 years of experience in catering site selection, so this can allow newcomers to be familiar with the site selection work [7].
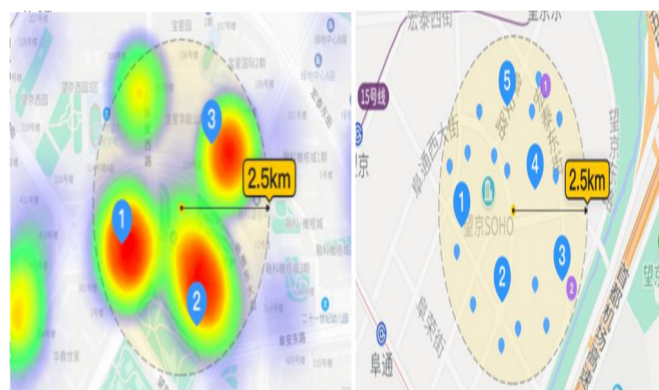

Figure 4.   The map of meituan's site selection
Source: China Chain Store & Franchise Association (CCFA)

Second, in the past, it is franchisees and headquarters that cooperated with each other to manage franchised stores, and the management skills and experience of franchisees greatly affected the operation quality of franchised stores. Under the digital franchising mode, the management of franchised stores will rely more on the digital system in their headquarters and tend to be directly managed by their headquarters, indicating that the complexity of franchisees' participation in management has been greatly reduced.

Luer Intelligence introduces "digital and intelligent operation" to help the brands of emerging chain catering enterprises through the combination of traffic monitoring system and data of POS cash register system in franchised stores (see Figure 5 for details). Data and algorithm analysis can be displayed on the big screen of Luer Intelligent Management Analysis, promoting the brands and helping headquarters to fully understand the gender, age, consumption of consumers [8].

Third, traditional franchised stores have many regional characteristics due to its wide range of geographic development, which often becomes a difficulty in the management of franchised headquarters, so there is no way to improve the individualization of headquarters' management. Under the digital franchising, big data and artificial intelligence can be utilized to encourage headquarters to become the most powerful brain. Moreover, the selection and marketing of each store can be personalized, which greatly improves consumers' experience.
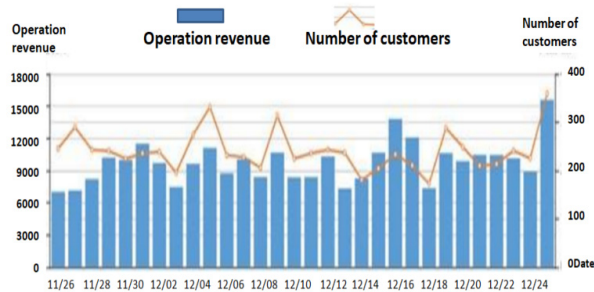
Figure 5. The operation revenue in the past 30 days VS The number of customers
Source: China Chain Store & Franchise Association (CCFA)

The digital practice of franchising and its influence on franchising have just started in China. Many excellent enterprises have made deliberate attempts and achieved remarkable results. As "excellent brands" are brought back to third- and fourth-tier cities by more young entrepreneurs who return to their hometowns, digital franchising will play a huge role in the future and help franchising brands to go further and more stably.

5 CONCLUSION

As the research has demonstrated, the third-generation franchise takes advantages of digital computing capabilities to form a closed loop of information and data shared between franchisees and consumers in which franchisers can empower franchisees more accurately and serve consumers more efficiently, thereby promoting a healthier franchise model, facilitating economic development, reducing the franchise risk caused by information asymmetry to achieve a win-win cooperation for both parties.

REFERENCES

[1] Phoenix Net Finance .（2021） In-depth Interpretation of the Data of Top 100 Franchisors and the Further Development of Digital Operations. https://i.ifeng.com/c/87WInmbIqQh.
[2] The China Chain Store & Franchise Association (2021). The Release of Guide of Digital Franchising. http://www.ccfa.org.cn/portal/cn/xiangxi.jsp?id=442713&type=1&sharetype=1.
[3] The China Chain Store & Franchise Association (2020).Research and Report on the Portrait and Behavior of Franchise Investors in the Digital Era, BEIJING .
[4] Pei Liang. Sohu News. (2018) One Picture to Understand the Third-Generation Franchising, https://www.sohu.com/.
[5] Pei Liang. Sohu News. (2021) Promoting High-Quality development of Franchised Enterprises with Standardization the Primary Dimension. Sohu News, https://www.sohu.com/.
[6] Sohu News. (2021)What are the New Trends and Trends in the Franchise Market in 2021. https://www.sohu.com/a/468927898_121119386.

[7] The China Chain Store & Franchise Association (2021). Guide of Digital Franchising (2021 edition)

[8] The China Chain Store & Franchise Association (2021). Guide of Digital Franchising (2021 edition)