Australian Franchisor websites: Moving towards network behaviour

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Abstract

Australia is one of the leading nations using the internet in both business-to-consumer (B2C) and business-to-business (B2B) settings (ABS 2004). However, little academic attention has been paid to the adoption of internet-based technology in the Australian franchising sector. Thus this paper addresses the problem of how Australian franchise organisations use internet-based technologies in their franchise systems. This research examines the websites of a sample of 202 Australian franchisors to determine their function as a communication and marketing tool within the franchise network. The aim is to document the web activities undertaken by Australian franchisors to provide an exploratory and descriptive snapshot that can be used as a platform for theoretical efforts. The analysis reveals that adoption of internet technologies is still in its infancy in Australian franchise systems with the major uses of franchisor websites being providing information to consumers and as a means of attracting potential franchisees. There is evidence that franchise organisations are moving towards network behaviour through the internet.

Keywords: franchise, internet, website, networks,
1 Introduction

The franchising sector, like most B2B markets, consists of members that are independent organisations that are bound together by well-defined roles, responsibilities and objectives. Members typically depend on the adherence to strict territorial rights for successful operation. Further, as the franchisor's income depends on the revenue of its franchisees, it endeavors to be efficient in fulfilling its part of the franchise contract. Thus while franchisors and franchisees are independent businesses with specific, defined responsibilities which are similar to other B2B relationships, franchise systems may be even more dependent on the success of their network members, than other types of networks. This is particularly true because consumers often do not distinguish franchisee outlets from those owned and managed by the franchisor. Success of this network as a whole is reliant on the success of both franchisors and franchisees.

The relevance and impact of the internet on the business-to-business market is widely acknowledged [1,2]. The growth of the internet has led to a proliferation of consumers and firms participating in the global online market place. Among countries around the globe, Australia is one of the leading nations using the internet in both business-to-consumer (B2C) and business-to-business (B2B) settings [3]. The global nature of the internet and the way it allows firms to overcome physical and geographical distance presents an opportunity to the franchising sector as it can further expand its market and service capabilities with this technology.

In addition to Australia's reputation as a leading internet adopter, the country is acknowledged as being a world leader in terms of franchising practice [4]. Hence, it is useful to explore the use of the internet in franchising in the Australian context. To improve competitiveness through internet-based technologies, many franchise organisations are moving towards 'network' behaviour [5,6]. For example, many franchises are beginning to utilise e-commerce revenue sharing, integrated intranet with chat capabilities and interact with customers and suppliers through the internet to reduce transaction costs [7]. While large organisations led the way in adopting internet-based technologies, many smaller companies have recognized the potential for leverage internet-based technology to help drive revenues and profits. Indeed, some researchers posit that franchise systems are particularly suited to electronic commerce because of their recognizable brand name and their established network of physical outlets [8,9].

Whilst implementing internet-based technologies in franchise systems may potentially result in significant communication, revenue and profit gains, little is known about how to strategically leverage its capabilities. This lack of understanding by many on-line businesses may lead to financial losses, damaged company reputations, or missed opportunities. Therefore, a better understanding of the internet as a commercial medium is required by businesses. Moreover, most of the literature that is available takes the form of short articles in publications aimed at the franchise industry rather than academic research. The objective of this paper is to document and analyse the marketing activities of Australian franchisors on their web sites to provide an exploratory and descriptive snapshot that can be used as a platform for further theoretical efforts into the impact of the internet and e-commerce on the franchising system. This research forms the first stage of a three-stage project examining internet use in Australian franchising sector.

This paper has three parts. Firstly, we review the literature on functional roles that websites are assumed to play in franchise organisations. Next, the methodology used in this study is briefly described. Finally, the findings from a sample of franchisor websites are discussed.

2 Literature Review

The facilitating effect of the internet on communication between business partners is evident in the literature. In particular, the emerging concept of an electronic or virtual value chain reflects the impact of emerging electronic technologies on businesses [10] when an organization exchanges value in the form of money, goods, services and information with suppliers and/or customers over the internet. The use of the internet for procurement and other industrial transactions greatly reduces the cost of doing business [11]. The process covers a broad range of applications, ranging from simple information dissemination about product specifications, and pricing through to the integrated supply chain relationships designed to optimize the distribution process [12]. However, the impact of internet use remains uncertain. Moderating environmental and contextual constraints as well as contextual variables such as inter-organizational relationships, industry adoption rate, and orientation to technology adoption impact on internet use. However, the advantages generated by internet use in the business-to-business market, of which franchises are a part, are nevertheless cited in numerous research findings. They are discussed next.

2.1 Improved communications with suppliers and franchisees

The web is generally viewed as a new communication medium. Specifically, the web has changed communication from 'one-to-many' to a 'many-to-many' communications model that can result in communication
efficiency and increased responsiveness [13, p. 19]. The internet improves business communication through effective and efficient information search and exchange [14, 15, 16] as well as enhanced connectivity and interactivity [17]. That is, the internet facilitates effective and efficient access to information and allows firms to exchange information with their exchange partners (Fraser, Fraser & McDonald 2000) that is fast, transparent and is universally accessible [18].

In the context of a franchise system, there are several areas where internet-based technologies may have an impact. Initially, the primary objective for a franchise system website was to promote the franchisor’s system to potential franchisees [19]. More recently, a dual marketing approach is commonly adopted by franchisors in the design of their websites. For example, Young, McIntyre and Paswan [20] examined various activities on franchisor websites and found that they provide a means to interact with both franchisees and consumers. Many franchisors’ websites offer extensive outreach to customers through sales promotion activities [21]. These activities bring to franchisors a tremendous amount of resources, capability and tangible benefits. Next, we consider the benefits that this dual marketing approach can provide to franchisors and franchisees in more detail.

In more details, the internet-based technologies can enhance communication with both members in the franchise system. They enable real time information sharing to all members of the franchise system and facilitate the free flow of information. For example, franchisors can obtain real time inventory and sales information from their franchisees, resulting in a reduction in processing and transaction costs. Further, transparent communication through the use of internet-based technologies offers tremendous advantages including: improved communication, a feeling of openness, a feeling of being part of a team, emergence of relational norms, a sense of alignment of goals, and a feeling of being part of the strategy and plans. It has been suggested that the presence of a transparent communication system is a prerequisite for improved communication both across vertical and horizontal levels. The participation by the members is likely to come from the fact that they feel a sense of comfort, belongingness and shared values.

The web also plays a prominent role in franchisee recruitment. A web site may contain such information as an overview of franchise programs, franchisee testimonials and details on franchise opportunities. Some franchise web sites even contain the required initial capital contribution from the potential franchisee, as well as the amount of royalty and advertising fees [22]. This makes the internet a valuable communication medium that affords efficiencies to the franchisor [23] in terms of reaching potential franchisees. Other information such as presentations and other business materials that can assist franchisees in everything from employee training to sales and marketing [24] can also be made available in real time. The internet-based chat facilities also provides a means for franchisees to communicate efficiently among themselves about effective business strategies, fellow franchisees’ experiences, evaluating new equipment, ordering supplies or even tracking a whole franchise system’s sales figures [25]. For example, Planet Smoothies franchisees can access marketing materials, communicate with other franchisees and discuss issues in chat rooms through the intranet [26].

2.2 Improved communication with customers

The internet can be used as a tool of communication with end consumers. Firstly, it provides a wealth of information to customers. Most franchisor websites contain extensive product descriptions and help customers to locate a specific franchise outlet in their area [27]. Thus, an online presence will build consumer awareness that may lead to additional sales at franchised units [28]. Activities, such as the presence of a store locator button on the web site, can direct consumers to local franchisee units. Secondly, online consumer sales promotion activities are tangible efforts by the franchisors to increase overall sales for the franchisee. Indeed, Web advertising and promotions may lower direct marketing costs for the franchise system [29] through replacement of brochures, letters and memos that franchises send out via regular mail or fax.

Furthermore, the internet has also assisted the franchising sector to develop and maintain relationships with customers. Many web sites contain customer feedback forms through which customers can lodge their questions, comments or concerns. Franchisees can now respond to their customers more rapidly and therefore provide better quality service. Internet-based customer service not only affects direct sales, but also improves customer relations that retain customers [30]. Using the internet as a medium can speed up service turn-around and enhance service delivery [31]. Customers can self-serve information, instead of waiting for sales representatives. Customer service is no longer limited by time. A franchisor can take customer questions and/or service requests online and provide detailed answers within 24 hours [32].

2.3 Improved financial performance

The next advantage the internet can offer relates to a franchising system’s financial performance - decreasing costs and increasing revenue. On the one hand, cost reduction is the most cited benefit of using internet-based technologies in B2B e-commerce (for example, 30, 33]. Many firms benefit from using internet-based technologies in terms of savings on operational methods such as placing orders, receiving invoices, tracking shipments and processing payments and can achieve an electronic integration effect [34]. In addition to operational cost efficiency, marketing communication costs can also decrease directly by substituting the internet...
for other communication media. For instance, online customer support documentation can dramatically cut the costs of printing and shipping paper-based technical support material [33].

On the other hand, the internet can be used to generate revenue through a number of mechanisms such as increased speed to market, expanded global market, and decreased market entry barrier, particularly for small franchises. However, the revenue models may be somewhat more complex and problematic for the franchise sector than for non-franchised firms because the contractual and often international nature of franchising leaves it in a more precarious position when it comes to online transactions. For example, offering goods/service for sale on franchisors’ web site may violate cross-border competition laws [35] or be in breach of their own franchise contracts regarding territorial rights [36].

Plave and Amolsch [37] suggests four ways in which franchisors can handle online sales: 1) the franchisor conducts all online business and retains all the profits; 2) the franchisor conducts all online business but shares profits with franchisees; 3) the franchisor conducts all online business with the franchisees responsible for fulfilling the orders and, therefore, sharing in the profits; and 4) the franchisees conduct online business independently and pay the franchisor royalties on the profits. However, for some franchises, if the majority of goods are to be bought on-line, the need for a high street presence to maintain and promote brand visibility will be less, and hence the attractiveness of franchising as a cost-effective means of achieving this [38].

2.4 Improved operational efficiency and coordination in supply chain management

B2B internet use improves operational efficiency through automated procurement, reduced errors and time in completing business transactions and increased flexibility and responsiveness. As communication is improved at points along the value chain [39], procurement systems become networked [40], including activities ranging from information search, through to delivery, calculating and paying royalty fees [41]. This e-procurement process reduces the formalisation of the communication between exchange partners, eliminating ‘the rules, paper work, hidden procedures and other obstacles’ [42, p. 243]. Further, Web-based electronic data interchange and electronic funds transfers enhance supply chain management, allowing swifter and more accurate transactions [43].

Indeed, this improved efficiency is the foundation of building cooperative relationships between exchange partners [39, 43] and ultimately adding value to products and services sold to end customers [32]. Internet use may facilitate long-term relationships with intermediaries, through enabling shared databases and processes that contribute to closer customer relationships [44]. Further, industry- and product-related sites can be used to generate a community of interest in which suppliers, franchisees, and customers discuss issues of concern. For example, a specialty franchise of nutritional health, General Nutrition Centers, provides online support and advice to consumers and research communities regarding quality nutritional supplements, nutrition plans, medical care, and current research.

Apart from dissemination of information, internet-based technologies can also be used for activities such as real time marketing, providing a ‘reservoir of knowledge’ and education, coordination, and conflict resolution within a franchise system [45]. They may also assist with business functions such as forecasting, risk management, performance assessment, or assessment of fees and royalties. For example, in addition to the ability to place orders with suppliers using net technologies, franchisors, franchisees and suppliers may have a transparent system in which inventory levels and forecasts are accessible to all members in the system. Monitoring and controlling of franchisees may also be facilitated by internet-based technologies. It is common to have many geographically scattered users access the same system in real time. Franchisors may require franchisees to provide regular reports of sales and other information to help ensure their viability.

3 Research methodology

To document the web activities undertaken by Australian franchisors to provide an exploratory and descriptive snapshot that can be used as a platform for theoretical efforts, a sample of franchisors’ websites were reviewed. The population of business format franchisors in Australia totals 800 [46] and covers a range of industries in the retail and service sectors. Stratified random sampling, based on the proportion of franchisors by industry type, was used to obtain a sample of 202 franchisors from a database maintained by the researchers. That is every third franchisor’s website on the database of all Australian franchisors was examined. The main industry groups were non-food retail (30 percent), property and business services (24 percent), and food retail (14 percent), but all industries were included to achieve a high level of representativeness of the population. Franchisor websites were scrutinised to gather data on various types of information available to the public.

We focused on two main areas of inquiry that were identified in the literature: (1) how franchisors communicate the features of their franchise systems to potential franchisees and (2) how franchisors promote their products
and services to customers. Lists of features were recorded as either being present or absent on the websites. Demographic data, such as years in operation and number of outlets, were also obtained from the websites. A checklist was used in assisting data collection and use the following questions:

- Does the Web site provide general information about the franchise company?
- Does the Web site provide company history about the franchise company?
- Does the Web site provide information about the director background of the franchise company?
- Does the Web site provide information for prospective franchisees?
- Does the Web site provide information about services provided by the franchisor?
- Does the Web site provide details of employment opportunities?
- Does the Web site display franchisee testimonials?
- Does the Web site provide details of fees/costs information for prospective franchisees?
- Does the Web site provide details regarding qualities required of prospective franchisees?
- Can prospective franchisees send a request for information?
- Does the Web site provide details about the franchise’s products or services?
- Can customers place an order online?
- Can customers pay for products/services online?
- Does the Web site provide information on the location of franchisees?
- Does the Web site have links to separate pages/sites displaying franchisee details?
- Does the Web site include an intranet for franchisees?
- What online promotion is available on the web site: coupons, discounts, gifts?
- Does the Web site have interactive customer pages (e.g. games, chatrooms, etc.)?
- Does the Web site allow for community activities?

Each website was located and evaluated in terms of these criteria. Most of the questions are yes or no type of questions thus the answers were coded as “1=yes” and “2=no”. Only one question is open-ended which relates online promotion technique. Answers to this question were coded into numbers and were transferred onto a spreadsheet in SPSS for analysis.

4 Findings and Discussion

To determine the extent to which franchisors use their websites to solicit potential investors and to coordinate with existing franchisees, we documented a number of activities listed in Table 1. Most franchisors have a section that provides information for prospective franchisees (86.1 percent) and most likewise allow them to request relevant information (86.1 percent). This seems to indicate that most franchises use the web site to primarily provide information to franchisees. Disclosure about the history of the organisation was provided by nearly two thirds (63.4 percent) and some even provided profiles of the directors (21.3 percent). More than one third of the sample (38.8 percent) highlighted the types of services performed by the franchisor and a lower percentage of franchisors provided information on qualities required of potential franchisees (32.7 percent), fees and costs (27.2 percent), with only 20.3 percent providing background information on the company’s franchising activities. Even fewer (20.8 percent) used the intranet to coordinate their activities with existing franchisees.

Table 1: Summary of franchisee solicitation and coordination on franchisors’ websites

| Franchisee solicitation and coordination activity | Frequency (n = 202) | Percentage |
|-------------------------------------------------|--------------------|------------|
| Company history                                 | 128                | 63.4       |
| Director backgrounds                            | 43                 | 21.3       |
| Franchisee information section                  | 174                | 86.1       |
| Franchising background                          | 41                 | 20.3       |
| Franchisor services                             | 139                | 38.8       |
| Testimonials                                    | 33                 | 16.3       |
| Fees/costs                                      | 55                 | 27.2       |
| Qualities required of prospective franchisees   | 66                 | 32.7       |
| Request for information                         | 174                | 86.1       |
| Use of intranet                                 | 42                 | 20.8       |
| Link to overseas brand                          | 21                 | 10.4       |

To determine the extent to which franchisors use their websites to promote their product/service and/or brand, we documented a number of activities listed in Table 2. An overwhelming 91.6 per cent of franchisors use their
website to provide product information to consumers. A majority of franchisors provides information on employment opportunities (72.8 percent) and store location (66.3 percent). However, a much lower proportion of franchisors has interactive pages such as chatrooms and games (20.8 percent). Only 11.4 percent of franchisors’ websites allow consumers to transact online. Even fewer franchisors conduct sales promotion activities such as offering coupons (2 percent), discounts (5.4 percent) and gifts (7 percent). This seems to indicate Australian franchisors conduct limited promotional activities on franchisor’s web sites.

Table 2: Summary of promotion activity on franchisors’ websites

| Promotion activity on franchisors’ websites | Frequency (n = 202) | Percentage |
|--------------------------------------------|--------------------|------------|
| Store locations                             | 134                | 66.3       |
| Product information                         | 185                | 91.6       |
| Provision of coupons                        | 4                  | 2          |
| Discounts                                   | 11                 | 5.4        |
| Provision of gifts                          | 2                  | 1          |
| Interactive customer pages                  | 42                 | 20.8       |
| Client booking facility                     | 17                 | 8.4        |
| Online sales                                | 23                 | 11.4       |
| Employment opportunities                    | 55                 | 72.8       |
| Community activities                         | 15                 | 7.4        |

To explore further, we conducted t-test to examined differences in franchisor website activities based on the size of the franchise system, using the total number of franchise units as a surrogate indicator for size. Franchise systems with greater numbers of domestic franchisees are more likely to provide company and franchising background information on their websites than systems with fewer domestic franchisees. They are also more likely to have an interactive web page for consumers, provide employment opportunity information and have some sort of online community activities online.

We also examined differences in franchisors’ web activities based on their age, measured by years of operation, using a t-test. Significant differences are present among franchisors based on their experience. Franchise systems that have operated for a longer period of time are more likely to use the web for franchisee solicitation activities such as providing company information, the director’s background, franchising information and franchising background. They are also more likely than newer franchise systems to provide fees/cost information on their websites and allow prospective franchisees to request information. Table 3 displays the findings of the t tests for comparisons based on size and age of franchise systems.

Table 3: Franchisor’s web activities based on size and age

| Website activity                  | Size | Age |
|-----------------------------------|------|-----|
|                                  | Yes* | No* | T stat | P value | Yes* | No* | T stat | P value |
| Franchisee solicitation           |      |     |       |         |      |     |       |         |
| Company history                   | 68.6 | 40.1| 2.145 | .033*   | 20.4 | 15.4| 2.394 | .018*   |
| Director backgrounds              | 61.9 | 57.1| .301  | .763    | 22.5 | 17.5| 2.026 | .044*   |
| Franchisee information            | 61.0 | 40.7| 1.083 | .280    | 17.4 | 26.0| 2.982 | .003**  |
| Franchising background            | 104.7| 46.3| 3.754 | .000**  | 24.4 | 17.1| 2.952 | .004**  |
| Franchisor services               | 65.1 | 42.9| 1.593 | .113    | 17.6 | 20.8| 1.473 | .142    |
| Testimonials                       | 79.8 | 53.9| 1.486 | .139    | 21.6 | 18.0| 1.340 | .192    |
| Fees/costs                        | 57.6 | 58.4| .049  | .961    | 14.9 | 20.0| 2.259 | .025**  |
| Qualities required                | 49.3 | 62.5| .954  | .341    | 15.9 | 19.9| 1.876 | .062    |
| Request for information           | 61.0 | 41.4| 1.028 | .305    | 17.4 | 26.2| 2.988 | .003**  |
| Use of intranet                   | 61.3 | 57.3| .248  | .805    | 15.7 | 19.3| 1.467 | .144    |
| Link to overseas brand            | 81.0 | 55.5| 1.203 | .230    | 14.6 | 19.0| 1.343 | .181    |
| Promotion activities              |      |     |       |         |      |     |       |         |
| Store locations                   | 63.1 | 48.5| 1.064 | .288    | 20.4 | 15.0| 2.557 | .011*   |
| Product information               | 55.1 | 91.4| 1.563 | .120    | 18.7 | 17.1| .449  | .654    |
| Provision of coupons              | 99.8 | 57.3| .915  | .362    | 20.3 | 18.5| .236  | .814    |
| Discounts                         | 93.2 | 56.1| 1.300 | .195    | 17.4 | 18.6| .283  | .777    |
| Provision of gifts                | 47.0 | 58.3| .172  | .864    | 23.0 | 18.5| .453  | .664    |
| Interactive customer pages        | 83.5 | 51.5| 2.018 | .045*   | 23.2 | 17.3| 2.369 | .019*   |
| Client booking facility           | 76.5 | 56.5| .857  | .392    | 16.4 | 18.8| .641  | .522    |
| Online sales                      | 36.0 | 61.0| 1.225 | .222    | 15.9 | 18.9| .935  | .351    |
| Employment opportunities          | 97.8 | 43.3| 3.878 | .000**  | 20.7 | 17.8| 1.262 | .209    |
| Community activities              | 164.7| 49.6| 4.931 | .000**  | 18.1 | 18.6| .139  | .890    |
Finally, we examined differences in franchisors' website activities based on industry classification. Since retailing accounts for almost half of franchisor activity, we split the sample into retail and non-retail sectors. To identify differences among group characteristics, we used the chi-square test. Retail and non-retail franchisors equally utilise the web for franchisee solicitation and coordination. However, retail franchisors are more likely to offer discount packages \( (X^2=7.346; P=.007) \) and coupons \( (X^2=4.879; P=.027) \) online than those that are predominantly service-oriented.

## 5 Conclusion

A franchisor's website serves as a valuable communication medium to its various audiences. For some franchisors, the website functions to target both franchisee prospects and potential customers. In the current study, significant differences do exist in terms of franchisors' web activities, although there is no overall systematic pattern. Overall, there is a lack of goals in franchisors' overall strategy when making the move into electronic commerce. This indicates a lack of strategic focus in use of the internet as well as a lost opportunity by franchisors to target their communications more directly at franchisees and customers. Most franchisors' websites take the form of a brochure type. In terms of online sales, franchisors appear to be more cautious than their non-franchised counterparts, with only 11 percent engaging in e-commerce compared with 16 percent of business in Australia selling via the internet [3]. Our findings also show that there are some areas that could be exploited more efficiently in this sector, for example the use of intranets and various promotional activities and interactive pages to build brands.

Our findings differ from those of Young et.al. [20] in their study of the Top 200 franchisor websites (based on worldwide sales). Mature Australian franchisors (older and larger systems) tend to use their websites more proactively to attract potential franchisee investors. This may be because Australian franchise systems are significantly smaller than those in the United States, and there is a greater need to actively recruit investors. Another difference in the findings was that Australian franchisors are much less reliant on promotional activities, such as sales coupons and discounts, to attract customers. This may reflect a cultural difference in consumer behaviour between the two nations.

Overall, we conclude that the use of the internet in franchising in Australia is in its infancy, perhaps hampered by territorial and encroachment issues [4], as evidenced by the low use of online sales facilities. This may suggest that for the internet to truly be used to its fullest potential, the franchising industry must realise that it can be used not only for franchisee support, but also for vendor support, customer support and supply chain management. Nevertheless, the web sites are found to target both franchisee prospects and potential consumers. This implies that firms operating in the context of a network may be able to leverage the internet for the benefit of individual organizations and the network as a whole. Also the possibility for building the brand has very positive potential for enhancing franchisor-franchisee bonds. The main limitation of this study is that a web site survey only provides a snapshot of the situation at the time the observations were carried out, and the worldwide Web is fast changing its face as new web sites become live and existing ones evolve. Hence, this study is intended to serve as a basis for further research. The current study contributes to the scant literature on the use of franchisor websites and their role in network behaviour. The next stage of this research will examine franchisors' motives and aspirations and the impact of the use of the internet in their networks. Further research into how franchisors develop their online strategy and how this has affected their relationship with their franchisees and customers will further develop this area of research.
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