

DEVELOPMENT OF FRANCHISING IN TERMS OF DIGITALIZATION

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Abstract: The emergence of new business models in franchising, driven by digitalization, is undeniably reshaping our conventional understanding of business processes. While new technologies are intended to simplify and optimize operations, it's crucial to consider the potential challenges that both franchisors and franchisees may encounter. This article examines the concept of digitalization within the context of franchising's evolution, highlighting both the positive impacts of this process – such as digital tools that can enhance communication and collaboration between franchisors and franchisees, the utilization of smart contracts, website creation, and enhanced analytics through big data – as well as the challenges that arise from the adoption of new technologies. These challenges include: the legal and regulatory frameworks required for new franchising models, the readiness of companies to implement new digital tools, the need for new infrastructure and skilled personnel, the impact of new technologies on companies' competitiveness, and the potential limitations on franchise growth in the digital economy.

Keywords: digitalization, franchising, e-commerce, risks of digitalization, new business models.

JEL Classification: O33; M21; F10

INTRODUCTION

The digitalization of the economy has a significant impact on all areas of business, including franchising. Traditional franchising models based on personal interaction and standardized processes are gradually being transformed under the influence of new technologies. The introduction of digital tools offers great opportunities for optimizing business processes, increasing the efficiency of communications between franchisors and franchisees, and improving analytical capabilities through the use of big data.

However, along with this, new challenges arise related to legal, organizational and technological aspects of implementing digital solutions.

The purpose of this article is to analyze the impact of digitalization on franchising development, highlight key advantages and challenges, and suggest ways to address them. The research is based on the analysis of scientific publications, statistical data and practical examples of the introduction of digital technologies into franchise models.

MATERIALS AND METHODS

The research was conducted using qualitative and quantitative methods of analysis. A literature review was conducted, including academic articles, books and reports on the topic of digitalization of franchising. The main sources include works by Zhao (2022), Cedrola and Memmo (2013), and Mazepova's (2021) research on the legal regulation of franchising in the digital economy.

To analyze the current state of the franchising market, statistical data from open sources, such as reports from the International Franchise Association (IA) and Statista research, were used. In

addition, practical cases of companies that have implemented digital technologies in their franchise networks were considered.

RESULTS AND DISCUSSION

Advantages of digitalization of franchising include optimization of communications. One of the key benefits of digitalization is improved communication between franchisors and franchisees. Modern platforms such as CRM-systems and cloud services, allowing for rapid information exchange, tracking of standards and co-ordination of actions network participants (Cedrola & Memmo, 2013). For example, the use of Chabots and automated support systems can reduce time spent on routine issues. Smart contracts, Blockchain-based smart contracts are becoming an important tool in franchising. They provide transparency and automation of settlements between parties, which reduces the risk of conflicts and litigation (Mazepov, 2021). According to Ye-Sho Chen's research, the use of smart contracts can reduce administrative costs by 20-30%. Big data analytics. Big data allows franchisors to better understand customer behavior, forecast demand and optimize marketing campaigns. For example, analyzing purchase data helps to identify the most popular products and tailor the assortment to the needs of the target audience (Zhao, 2022). E-commerce. The development of e-commerce expands the opportunities of franchise networks. Franchisees can use online platforms to sell goods and services, which is especially important in the context of globalization and the growing number of Internet users.

However, it also creates new legal issues related to territorial exclusivity (Branellec & Perrigot, 2013).

Challenges of digitalization of franchising; legal and regulatory issues. The introduction of new technologies requires updating the legal framework. For example, the use of smart contracts and blockchain requires a clear definition of the legal status of these instruments. In, the issues of personal data protection and cybersecurity are becoming particularly relevant (Mazepov, 2021). Technological readiness of companies - not all companies are ready to implement complex digital solutions. Small and medium-sized franchise networks often face limited resources and a lack of skilled professionals (Cuffe, 2021). Competition and constraints to growth. Digitalization can both strengthen the competitiveness of franchise networks and create barriers to their growth. For example, the high costs of technology adoption can limit new entrants' access to the market (Chen, 2023).

STATISTICS AND DATA VISUALIZATION

Based on Statista (2023) data, the following trends can be identified:

- The global franchising market size was valued at \$3.7 trillion in 2022.
- The share of online sales in total franchise revenues increased from 15 per cent in 2018 to 25 per cent in 2022.
- 67% of franchisees have implemented at least one digital tool to optimize business processes.

Table 1. Dynamics of online sales growth in franchising

Year	Share of online sales (%)	Growth compared to previous year (%)
2018	15	-
2019	17	13.3
2020	20	17.6
2021	23	15.0
2022	25	8.7

Source: Statista. (2023). Global Franchise Market Report.

Studies by the IF (International Franchise Association) and other analytical companies confirm that online sales are taking an increasing share in the revenues of franchise networks. For example, the 2020 pandemic has significantly accelerated the shift to e-commerce, which explains the high growth in 2020 (17.6%).

Growth Rate Calculation:

$$\text{Growth rate} = \frac{\text{New value} - \text{Previous Value}}{\text{Previous value}} * 100\%$$

We will use the growth rate formula to calculate the data for 2023, 2024, 2025 and 2026.

Inverse formula to calculate a new value (online sales share) based on a known growth rate:

$$\text{New value} = \text{previous meaning} \times \left(1 + \frac{\text{growth rate}}{100}\right)$$

Initial data:

- Share of online sales in 2022: 25%
- Growth rate in 2022: 8.7%

To forecast future values, we assume that the growth rate will decline gradually as the franchising market approaches saturation. This is a realistic assumption given that the growth rate has already slowed from 17.6% in 2020 to 8.7% in 2022.

Projected growth rate:

- 2023: 7.0% (1.7 percentage points slower growth)
- 2024: 5.5% (1.5 percentage points deceleration)
- 2025: 4.0% (1.5 percentage points slower growth)
- 2026: 2.5% (1.5 percentage points slower growth)

Summary table:

Table 2. The trend towards online sales growth in franchising

Year	Share of online sales (%)	Growth compared to previous year (%)
2022	25	8.7
2023	26.75	7.0
2024	28.22	5.5
2025	29.35	4.0
2026	30.09	2.5

Source: calculated by the author

Based on these calculations, it can be concluded that the share of online sales in franchising will continue to grow, but the growth rate will gradually decrease. By 2026, the share of online sales will reach approximately 30.09%, which reflects the trend towards market stabilization.

CONCLUSIONS

The digitalization of franchising is a two-way process that combines significant advantages and serious challenges. On the one hand, the introduction of digital technologies allows optimizing business processes, improving communications and increasing the competitiveness of companies. On the other hand, franchise networks face challenges related to legal regulation, technological readiness and economic constraints.

To successfully implement digital solutions, companies need to develop a strategy that takes into account both internal capabilities and external factors. This includes investments in staff training, infrastructure upgrades and co-operation with technology partners. Only an integrated approach will allow franchise networks to maximize the potential of the digital economy.

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