INTRODUCTION

China, as the most populous country in the world, has attracted the attention of international franchisors. Since the opening of its society in 1978, the Chinese economy has transformed from a collection of state-owned enterprises to a mixture of a variety of privately-owned businesses, amidst the state-owned enterprises. As a new form of business organization in China, franchising has grown rapidly in recent years due to the entry of a large number of world-renowned franchisors (Alon and Welsh, 2001). According to the latest data released from China's Chain store & Franchise Association, which is China's government agency responsible for the development and regulations of the industry, there were approximately 410 franchisors operating in China with 11,000 franchisees by the end of 2000. Its business turnover in 2000 was around US$2.4 billion (China's Chain-Store Almanac, 2001). Research about franchising in China, however, is minimal. The purpose of this study is to fill this gap in the literature by examining the opportunities and threats to franchising, and by providing information on the practices of multinational and domestic franchisors in China.

The remainder of the paper is structured as follows: first, franchising in China by industry segment is investigated; second, a SWOT analysis of international franchising in China is provided; third, franchising in Shanghai and its practices are described; finally, some concluding remarks will suggest future developments of franchising in China.

FRANCHISING IN CHINA BY INDUSTRY SEGMENT

Although franchise operations only have a short history in China, its rate of development exceeds that of developed countries. About 30 percent of franchisors are from overseas. Franchising businesses now include more than 30 industries. Table I identifies some of the important business segments of franchising, among which Fast Food/Restaurants, Retail, and Household Services are among the three most popular areas for new franchise investment in China.
Table 1: Top 10 Business Areas for New Franchising in Franchise China 2001

<table>
<thead>
<tr>
<th>Sector</th>
<th>Beijing</th>
<th>Guangzhou</th>
<th>Shanghai</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast Food &amp; Restaurants</td>
<td>75%</td>
<td>59%</td>
<td>63%</td>
</tr>
<tr>
<td>Retail</td>
<td>71%</td>
<td>72%</td>
<td>53%</td>
</tr>
<tr>
<td>Household Services/Real Estate Agencies</td>
<td>32%</td>
<td>23%</td>
<td>22%</td>
</tr>
<tr>
<td>Education &amp; Vocational Training</td>
<td>23%</td>
<td>19%</td>
<td>16%</td>
</tr>
<tr>
<td>Business Services</td>
<td>15%</td>
<td>16%</td>
<td>14%</td>
</tr>
<tr>
<td>Childcare</td>
<td>17%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Beauty &amp; Fitness Clubs</td>
<td>13%</td>
<td>12%</td>
<td>8%</td>
</tr>
<tr>
<td>E-commerce/Internet</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Automotive Services</td>
<td>9%</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>Tourism Services</td>
<td>8%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>


A brief review of specific business sectors with some examples is provided below.

**Fast Food & Restaurants:**

Fast food restaurants include chains such as McDonald's, KFC, Subway, Yong He Da Wang (Taiwan), Xin Ya Da Bao, Hard Rock Cafe, Malan Noodles, Pizza Hut, Dicos and Little Sheep (Chinese hotpot restaurant). It is the most popular sector to attract franchise investment in China's major cities, and it is the fastest growing sector in franchising as well.

The most famous western players in this industry are McDonald's and Kentucky Fried Chicken (KFC). These two pioneers have remained the franchising leaders and have continuously increased their number of units. McDonald's had 470 stores while KFC had around 630 (NanFang Daily, June 27th, 2002). Local residents who are fashionable, stylish and enjoy western culture like to try western restaurants for novelty. For them it is a symbol of fashion, social status, and a contemporary lifestyle. They are particular about the dining atmosphere and like the concept of efficient food service delivery.

As for Chinese cuisine, it accounts for more than half of restaurant spending. It is not expensive and has a variety of styles. Chinese patronize the same local restaurants quite often while they try a different western restaurant each time to experience western food (Alon et al, 2002). This industry is monopolistically competitive, and is categorized by low cost of raw materials and high profit margins.

**Chain Stores & Convenience Stores/Retail:**

This segment includes chains such as Hua Supermarket (a small supermarket), Hua Lian, KeDi, 7-11, Lawson, and 21 Convenience.

Chain stores have developed rapidly in China since the late 1990s. By the end of 1997, there were just over 90 chain stores and around 30 franchised stores. However, by the end of 1998, the number had increased to over 120 with sales volume of about US$ 6.05 million, among which 40% were franchised stores (ChinaOnline, August 2, 1999). Domestic retail enterprises such as Lian Hua and Hua Lian have grown more competitive. Lian Hua had 950 stores and US$1.4 billion sales volume in 2000, while Hua Lian had 682 stores and US$700 million (China's Chain-Store Almanac, 2001). This rapid development is based on the dual strategy of developing franchised business units and company-owned stores concurrently.

Convenience stores (such as 7-Eleven and KeDi) are usually located in residential areas and operate 24 hours a day. With a small shopping area and low shelf displays, it is very convenient for customers to locate the right products and complete their shopping in a few minutes. For the store owner, the initial investment is lower because a smaller operations area is needed. The main target markets are young consumers born after the 1970s and the local community. Young consumers are more likely to accept new business formats and products, and appreciate the flexible shopping hours. Goods and services provided in these stores are modified over time to meet the changing demand of their customers.

Shanghai is the leader in the development of convenience stores. By the end of 2001, the number of convenience stores in Shanghai has already surpassed 2,100 (China's Chain-Store Almanac, 2001). New services are
frequently introduced to local customers through these establishments. These services include film development, and payment for electricity and water to the relevant water/power bureau. The market for convenience stores is expected to grow rapidly as living standards improve and as Shanghai residents demand more convenient shopping options.

**Real Estate Agents:**

This category includes Century 21(USA), Wo Ai Wo Jia (China), and Coldwell. Century 21, as the largest real estate service provider in the world, is the first foreign firm to do business in China. It is estimated that it will have 100 franchised stores by the end of 2002 (Century 21, 2002).

Great changes have taken place in the real estate market in the past five years. First, private ownership of real estate has increased. Second, a number of governmental incentives were advanced to stimulate the demand for housing in new residential areas. These two factors have accelerated the growth in housing industry and, subsequently, real estate service franchising. As a result of favorable housing policies and increasing disposable incomes, individuals are now the main buyers of residential real estate.

**Coffee and Teahouses:**

Drinking establishments include Starbucks, Manabe (Japanese coffee and snacks), Yuan Yuan Yuan (Taiwan tea house), Xian ZongLing (Taiwan tea house and restaurant), and Be for Time (Cantonese tea house).

In the past three years, more foreign ‘coffee shops’ have penetrated into China's market, such as Seattle-based Starbucks and Japan-based Manabe. Starbucks opened its first store in Shanghai in 2000. By Dec. 2002, it owned a total of 62 outlets in China (Reuters, 2002).

Though China has long been known as a kingdom of tea, the coffee culture is quickly growing. Coffee symbolizes the "western middle-class leisure culture" to most Chinese. For the young consumers who patronize these coffee shops, drinking coffee is part of an emerging social life that is fashionable and relaxing. But most of them have little knowledge of coffee, and cannot even distinguish different brands. They choose coffee not for the product, but for a store's environment, music, services and clientele. For example, when Starbucks opened in Shanghai, it catered to foreigners. Shortly after, its Chinese customer base increased to about 50%.

**Beauty Clinics/Fitness Clubs:**

These stores include Physical, XiangShanShouShen, and Natural Beauty. Beauty Clinics/Fitness Clubs have gained increasing popularity over the past few years due to the increasing awareness of fitness and beauty among white-collar workers. Marketing is usually membership driven. There is still little data currently available about this industry since it is new to the market.

**Education & Vocational Training:**

Some education franchise services include English First (EF) (Indonesia), Informatics (Singapore), Kid Castle (Taiwan), and KinderWorld (Singapore).

Education is one of the fastest growing areas in the urban consumer market. It is growing at a rate of 20% annually, with US$54.35 billion spent each year (Global Sources, 2002). A large majority of young white-collar workers in China would like to develop new skills and upgrade their existing ones. Training schools in foreign languages, information technology and other subjects have been set up accordingly. Pre-school children education is also covered.

According to Kid Castle, the children's education market has large potential because Chinese parents are more willing to invest money on their only child, especially in education. However, to open a new school in China is difficult, especially for overseas investors. They may face additional red tape consisting of longer application procedures, as this market is protected by the government. For example, in Shanghai, the education market is highly competitive and nearly saturated. Therefore, the Shanghai Education Committee does not encourage any foreign investors to open more schools in Shanghai. In addition, it is difficult to find an appropriate location because the percentage of children (2-12 years old) in a given community is often unknown and consequently the demand is uncertain.

**Business Services:**

The business services sector is quite new to the Chinese market. The leading players are Postnet, Sign* A *Rama, and Snapprinting. Due to their long established international reputations and well-known brands, it is not difficult for their franchisees/master franchisees to establish businesses in China. These
Franchisors emphasize on-time service delivery in their brochures in China. The main target market for these franchises, small and medium enterprises, are increasingly demanding quicker and higher quality business services, which poses new challenges and opportunities for this business sector.

Laundry Services:

Laundry service companies include: Sanyo (Japan), Elephant King (Taiwan), Fornet (France), ILSA (Italy), and Zheng Zhang (China). The demand for this service has increased for a number of reasons: first, living standards have improved and the pace of life has quickened; second, changes have taken place in what people wear; third, clothes are more varied in color and material; fourth, a larger number of women have entered the work force; finally, a greater value is placed on leisure time. Most of these stores are located in residential areas and customers are both price-sensitive and quality-sensitive.

Eye glasses:

Eye glass providers include Hong Xing, Xian Dai Guang Xue, Paris Miki (Japan) and Da Ming. Eyeglass retailing is a new industry for potential entrepreneurs. According to ChinaOnJine (Feb 22, 2001), China has at least 300 million people who wear glasses, and the annual demand for eyeglass lenses averages about 60 million pairs, if these people replaced their eyeglasses just once every five years. People in big cities such as Beijing and Shanghai tend to change their glasses every two years. The leading domestic players are Hong Xing (Shanghai local brand) and Da Ming (Beijing). They tend to be local firms rather than national competitors.

Automobile Services:

In this industry, players include Beijing YaFun Automobiles Group (China's largest car dealership), Beijing Contemporary New Concept Sales Corporation (Rental), Hertz (Rental), and Shanghai Angel Car Rental Company. There are a large number of enterprises that provide after-sale services for automobiles, including -maintenance, repair, and leasing services, but few are franchised.

Since China's accession to the WTO, automobile services will prosper because of the reduction in tariffs, the increase in drivers' licenses, the rise of tourism, and the growth in car ownership. Global Sources (2002) reported that 94% of Shanghai residents desire their own cars, 17% plan to buy one in the next two years. Currently Beijing residents own more cars than Shanghainese and thus the automobile services in Shanghai are not as developed as those in Beijing.

Film Developing Services:

Film developing companies include Kodak (USA), Fuji (Japan), Konica (Japan), and Lucky/Le Kai (China).

As the leader in this industry, Kodak has franchised its Express Outlets since 1993 to maximize its market share and gain success in China's market. By the end of 2000, Kodak had more than 6,000 Express Outlets all over China, commanding a 63% market share (China's Chain-Store Almanac 2001, p. 92). Konica, Fuji and Lucky share the remainder of the market.

SWOT ANALYSIS OF INTERNATIONAL FRANCHISING IN CHINA

Strengths:

1. Franchising represents an easier and less risky entry into the market
2. Proven brand, technology, business model and management system make franchised businesses less likely to fail than non-franchised businesses
3. To the Chinese government, international franchising puts forward a new method to solve the increasing pressure of unemployment and increase investment
4. International franchising helps both franchisors and franchisees in exploiting increasing economies of scale in a global context.

Weaknesses:

Besides the common weaknesses related to franchising, such as often poor franchisor-franchisee relationships and other control and communication issues, international franchising has faced its own unique weaknesses in its expansion to China's markets.

1. China's unique culture and social environment act as an entry barrier to international franchising
2. For franchisors, it is very difficult to adjust their businesses to local market conditions.
3. It is hard to identify a suitable franchisee.
4. International franchising does not always produce optimal benefits for both franchisees and franchisors.

Opportunities:
1. A large consumer market with increasing income, living standards and purchasing power.
3. Trade liberalization & many restrictions have been lifted since accession to the WTO.
4. Increasing interest in the expansion of small firms by the government of China.
5. The development of entrepreneurship in China.
6. Higher requirements for service quality from the growing cluster of middle class consumers.

Threats:
1. Regionalism hinders cross-area/cross-province operations of franchising in China. Many regions erected trade barriers and have regulations that are difficult to follow. It retards the fast transfer of assets, the speed of expansion, and the decision-making process in general.
2. The current legal structure in China is one that is difficult to understand and follow, and often does not apply to foreign franchisors.
3. Lack of a well-developed and coherent body of business laws.
4. Poor distribution/logistics systems and inadequate computer networks are due to the under-developed infrastructure of public facilities, the fragmented distribution system, regionalism, inefficient inventory techniques, restrictions on foreign involvement in domestic distribution, and limited financing and payment options.
5. There are many complex procedures to be followed in order to register as a franchising business in China.

6. More domestic franchisors are increasingly competitive while overseas competitors with substantial foreign experience swarm into China's market.
7. Nonstandard development of franchising inhibits the development of a company's image. Usually it is better to standardize the management, the products, prices, and promotion strategies to make good use of the advantages of the franchising system. But in China, some franchisees within the same system reduce prices in order to increase their own sales volume, thus creating an inconsistent image.
8. In the case of many franchisors, computer networks are not utilized for communication. The franchisee does not transfer useful market information to the franchisor in real time, and the franchisor does not instruct the franchisee on the proper business operations and sales management via computers. This causes serious delays in the information exchanges. Lack of communication and timely feedback hinders the distribution of goods, potentially lowering profit margins.

FRANCHISING IN SHANGHAI

Shanghai's market poses unique opportunities for international franchisors:
1. Shanghai's overall business environment is enterprise friendly. Shanghai has played a leading role both geographically and governmentally in boosting economic development in the Yangze Delta. In 2000, Shanghai's GDP achieved a double-digit growth rate for the 9th consecutive year, reaching 10.8% (the highest in China), with the service sector making the greatest individual contribution of 50.2% (ChinaOnline, Jan 9, 2001).
2. Entrepreneurship is highly encouraged in Shanghai. Its municipal government provides favorable policies in supporting entrepreneurs, such as providing low interest-rate loans and credit guarantees.
3. It has the best market in China (high percentage of middle-class with higher consumption capabilities) for enterprises to target.
4. For most enterprises, Shanghai is the first place to test and launch new products and services, and hence promote them to the rest of China's market due to its leading position in China's economy.
5. Newly-developed city and retail infrastructure reduce the distribution time of products and services.
Changes in the consumption pattern of the general public. From Table 2, we can see that the Shanghaiese have spent less on clothes and household facilities over the years. Recreation, entertainment, holiday travel, dining out and other leisure activities have become a significant part of people's daily lives. A highly fashionable society has developed in search of a higher quality of life.

Table 2: Urban Incomes in Shanghai

Urban Household Per Capita Annual Actual Income, Disposable Income and Consumer Expenditures in Main Years (RMB)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Actual Income</td>
<td>2198.28</td>
<td>7196.40</td>
<td>8475.50</td>
<td>8825.26</td>
<td>10988.90</td>
</tr>
<tr>
<td>Annual Disposable Income</td>
<td>2181.60</td>
<td>7171.91</td>
<td>8438.89</td>
<td>8773.10</td>
<td>10931.64</td>
</tr>
<tr>
<td>Total Consumer Expenditure</td>
<td>1936.20</td>
<td>5868.12</td>
<td>6819.94</td>
<td>6866.41</td>
<td>8247.69</td>
</tr>
<tr>
<td>Food</td>
<td>1094.28</td>
<td>3210.33</td>
<td>3510.04</td>
<td>3467.96</td>
<td>3712.31</td>
</tr>
<tr>
<td>Dining Out</td>
<td>134.52</td>
<td>364.20</td>
<td>415.52</td>
<td>423.88</td>
<td>538.24</td>
</tr>
<tr>
<td>Food</td>
<td>211.08</td>
<td>561.10</td>
<td>551.58</td>
<td>472.27</td>
<td>550.74</td>
</tr>
<tr>
<td>Household Facilities &amp; Services</td>
<td>177.96</td>
<td>673.46</td>
<td>590.15</td>
<td>466.84</td>
<td>893.37</td>
</tr>
<tr>
<td>Medicines &amp; Medical Services</td>
<td>11.40</td>
<td>112.82</td>
<td>197.09</td>
<td>260.78</td>
<td>346.93</td>
</tr>
<tr>
<td>Traffic &amp; Communications</td>
<td>51.00</td>
<td>301.46</td>
<td>397.19</td>
<td>384.49</td>
<td>527.00</td>
</tr>
<tr>
<td>Transportation</td>
<td>46.20</td>
<td>146.76</td>
<td>16.35</td>
<td>171.10</td>
<td>245.24</td>
</tr>
<tr>
<td>Postal, Telecommunications</td>
<td>4.8</td>
<td>154.70</td>
<td>21554</td>
<td>281.76</td>
<td></td>
</tr>
<tr>
<td>Recreation, Education &amp; Culture Services</td>
<td>231.12</td>
<td>465.88</td>
<td>784.04</td>
<td>843.24</td>
<td>1034.98</td>
</tr>
<tr>
<td>Residence</td>
<td>89.88</td>
<td>365.07</td>
<td>539.79</td>
<td>65959</td>
<td>720.33</td>
</tr>
<tr>
<td>Miscellaneous Expenses</td>
<td>69.48</td>
<td>268.00</td>
<td>268.06</td>
<td>311.24</td>
<td>462.03</td>
</tr>
</tbody>
</table>

(Data Collected: Statistical Yearbook of Shanghai 1999, and Statistical Yearbook of Shanghai 2000.)

All businesses are not suitable for the franchising format. In Shanghai, the industry that has the largest number of franchised stores is the catering business. This does not limit the larger franchisors which have a longer history and have become well established in the market such as McDonald's and KFC. Many domestic franchisors are already franchising overseas or planning to expand overseas shortly.

RESULTS

In order to get a current perspective on the development of franchising in Shanghai, we surveyed a number of well-known brands in Shanghai during the summer of 2000 and the winter of 2001 (See Appendix I for a copy of questionnaire). The interviews were based on the in-depth investigations of Dahlstrom and Nygaard (1999). The research instrument was developed for the purpose of understanding ownership decisions in U.S.-based franchising networks. The questionnaire was slightly modified to fit the Chinese context and market characteristics.

As mentioned earlier, retailing is a popular industry in which to adopt the franchising format. We choose three different formats in the retail industry and compare the differences and similarities in Table 3, and summarize information from the interviews in the summer of 2000.

Table 3: Comparison of Retail Franchises in Shanghai

<table>
<thead>
<tr>
<th>NAME</th>
<th>Lian Hna</th>
<th>Kodak</th>
<th>Quickly</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Domestic)</td>
<td>(US-based)</td>
<td>(Taiwan-based)</td>
<td></td>
</tr>
<tr>
<td>Type of business</td>
<td>Chain Store retailing</td>
<td>Films Retailing</td>
<td>Fast Food (drinks) Retailing</td>
</tr>
<tr>
<td>No. of company-owned outlets</td>
<td>180</td>
<td>40</td>
<td>1</td>
</tr>
<tr>
<td>No. of franchised stores</td>
<td>20</td>
<td>160</td>
<td>74</td>
</tr>
<tr>
<td>Investment capitals (US$)</td>
<td>8,400-12,000 for area of 20-40m²</td>
<td>19,000-100,000 for 20 m²</td>
<td>4,700 for 20 m²</td>
</tr>
<tr>
<td>Franchise fee (US$)</td>
<td>1st year 365 2nd year 620 3rd-5th year 870</td>
<td>No</td>
<td>1st year 1,000 2nd year 620</td>
</tr>
</tbody>
</table>
### Franchising Profile and Practices in the People's Republic of China

<table>
<thead>
<tr>
<th>Name</th>
<th>Lian Hua</th>
<th>Kodak</th>
<th>Quickly</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Domestic)</td>
<td>(US-based)</td>
<td>(Taiwan-based)</td>
<td></td>
</tr>
</tbody>
</table>

**Royalty rate**
- Lian Hua: 2.5% of sales volume every month
- Kodak: No
- Quickly: N/A

**Cost of management training (US$)**
- Lian Hua: When set-up, free; 2nd–5th year pay 370
- Kodak: Free
- Quickly: Free

**Buy equipment or products from franchisors**
- Lian Hua: Must Buy both except cigarettes
- Kodak: Must buy both
- Quickly: Must buy all the products

**Get daily sales info via network**
- Lian Hua: Yes, all are in computer network
- Kodak: No, will have in near future
- Quickly: No

**Franchisee's Power**
- Lian Hua: Fixed price but can choose location & products
- Kodak: Can choose location and change prices
- Quickly: Fixed price and free working time

**Manual**
- Lian Hua: Available
- Kodak: Available
- Quickly: Available

(Data Collected: Summer, 2000.)

These three franchisors share some common characteristics.

1. The franchisee cannot obtain the funds for a franchise from his relatives, friends, or associates. He must work in his own store most of the time, remaining continuously involved in its day-to-day operations. The franchisors seem to prefer the owner-operator model. However, many people in China who are financially qualified are not willing to work long hours in these stores. They would rather employ managers to operate their businesses on a daily basis.

2. The franchisee can get appropriate management and product training from the franchisor. There are regular meetings between the franchisor and the franchisee.

3. To ensure a reliable supply of the highest quality ingredients, to maintain a steady, predictable price for all supplies, and to take advantage of group buying power, all of these franchisors have their own purchasing and distribution systems.

4. There is no major difference in operating costs between franchised stores and company-owned stores.

These retail stores have combined two business formats (franchising and company-owned outlets). There are various explanations for this phenomenon:

1. Lian Hua Supermarket follows this strategy to quickly develop the network of its stores, thus dominating the regional market.

2. Kodak wants its brand name to touch every aspect of people's lives, with every customer experiencing Kodak's service capabilities. The key to providing service excellence is, therefore, rapid development of its franchise network.

3. The operation of company-owned stores in the immediate vicinity of franchised outlets generate parallel financial data on revenues, costs and profits, from which the credibility of franchisee financial data can be evaluated. In addition, highly motivated and hardworking franchisees can be expected on average to outperform a corporate store manager.

Quickly is a good example that successfully uses franchising as a model for expansion and service delivery in Shanghai. Quickly has 74 franchised stores and only one company-owned outlet in Shanghai; Its extensive franchising operations in Shanghai are due to a number of factors:

1. Small Initial Investment
   Quickly mainly provides take-out and delivery service of fresh drinks. It requires only a small investment since operating costs are much lower than supermarkets or tea bars.

2. Low Raw Material and Operating Costs
   The products of Quickly are milk tea, fresh drinks and snacks. Stringent quality and logistics management largely reduce the cost of
the imported raw materials, the auto-sealed machine, and the 500ml cups. Therefore costs are lower than the industry average.

3) Proper Site Selection.

When Quickly helps its franchisees set up new stores, it considers high traffic density areas such as commercial and business centers, followed by residential districts, tourist destinations, railway stations and schools. Since the flow of people is vital for business profits; all Quickly's franchisees in Shanghai are in high traffic areas.

4) Fixed Pricing Strategy.

The competition in the catering industry is very intense. After Quickly set up its first franchised store in Shanghai, similar stores began selling the same products. To promote their brands, these stores followed a strategy of price discounting. But as the leader and first-entrant in the market, Quickly's franchisees didn't discount their prices unilaterally. Their prices were fixed by Quickly in order to prevent profit erosion. When new products are introduced, Quickly unifies its marketing and pricing and focuses on promoting the brand.

Kodak's franchise system is the most developed and widely recognized among all the chains studied. Kodak's express outlets constitute its franchise network in China. They are managed as franchisees in that (1) they utilize independently owned outlets, (2) which are obliged under contract, (3) to buy and display 100% Kodak's products, and (4) utilize Kodak's store specifications including the display of the Kodak's brand, logo, and signage (Alon, 2000). Although Kodak's franchisees do not need to pay royalties Kodak makes profits from its sales of the equipment and products (e.g., films and cameras). This strategy is due to the difficulty of monitoring and enforcing company policies at the franchisee level in China (Alon, 2002). In addition, Kodak seeks rapid expansion in China's markets.

By guaranteeing the exclusive distribution of Kodak's products, Kodak has removed the possibility of any competitor using these express outlets as a distribution channel. It maintains its consistency of products and services, which in turn enhances its brand reputation and allows the firm to obtain a stronghold in China's markets.

In Table 3, only Lian Huahas a computer network for daily sales information. The reason is that the operational area and daily transaction volume for supermarkets are large, and their products are extremely diverse. Computer networks are efficient for both the franchisor and the franchisee to track the volume of goods sold, observe inventory changes, and estimate future demand patterns. This helps to solve the problem of poor distribution and allows for more efficiency in inventory management.

Kodak and Quickly do not use computer networks at the present time. Their products are simple and do not require computerized tracking. The franchisors believe that the cost of computer networks is not justified and that sales information can be obtained and analyzed directly from franchisee purchases.

Franchisees who purchase all equipment from the franchisor pay a one-time franchise fee. Usually these franchisors are foreign companies such as Kodak, for whom on-going monitoring can be difficult. Those franchisors who charge monthly fees are usually local companies.

Another interesting finding is that when a prospective franchisee spots a good location to open a new franchised store, the site may be retained for future development by an existing franchisee or the franchisor. Franchisors tend to keep the best locations for themselves.

Each franchisor provides standard operating manuals and training to its franchisees. Most of the initial training during the startup stage is either free or included in franchise fee (if franchise fee is charged). This operational training includes the training of the store staff. As for other training, especially after startup, training fees will be decided according to each franchisor's policy.

Most of the franchisors we interviewed have a main office in Shanghai because of the importance of this market. Several reasons may contribute to this phenomenon: first, it is the fastest growing city in China; it is easy to support franchised stores in Shanghai (the economic capital) rather than Beijing (the political capital); third, Shanghai customers are particular about the service they expect. In the catering industry; consumers will turn to the newspaper or local TV station if they are dissatisfied with the service they receive in stores. Negative media attention can be detrimental to franchisors that wish to expand in Shanghai and throughout China.
CONCLUSIONS

Franchising in China is expected to continue its robust expansion into innovative and diverse new industries and services. As globalization accelerates, increasing numbers of international franchisors will enter China's markets as their home country franchise systems reach maturity. China's accession to the WTO and deregulation of franchising present unprecedented opportunities for the franchising industry in China. There will be no restrictions on franchising after three years of accession to the WTO. A broad market environment, an increasing number of middle-class consumers, and the rising acceptance of entrepreneurship in China will all act to spur the growth of franchising in China. For international franchisors who want to expand in China's markets, franchising may be the solution. It enables them to quickly obtain scale in a massive market with fragmented distribution, while appealing to the entrepreneurial instincts of many Chinese who have the capital. However, the lack of management and marketing skills necessary to start and operate a business may act as a deterrent to quick expansion.

Franchising provides many opportunities to foreign firms, but not without difficulties as well. For example, there is room for franchising to extend itself into professional and financial services such as accounting, insurance brokerage, and pharmaceutical services. However, this expansion will rely on the ability to train and recruit highly qualified professionals to operate these outlets.

By analyzing the current opportunities and problems in franchising, and by examining the current state of franchising in China, we hope that our preliminary findings may be helpful to franchisors, franchisees and related government agencies.

REFERENCES


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12. How much does the training cost in management? How many parts does it include?

13. Are there any operating costs?

14. How many parts does the franchise fee contain? What does each cost?

15. Will you have other investments in franchisees?

16. Will you get sales information continuously from your franchised stores?

17. Is this information gained through the computer?

18. Is the investment in computer included in the franchise fee?

19. How often do you communicate with your franchisees?

20. How do you assess the product quality and service quality of the franchised stores?

21. Considering the price, new product, store location, renting the store front, working time and running the store, how much decision power belongs to the franchisee?

22. Is there a specific ratio of franchisee and company-owned stores you plan for? Why or why not?

23. How many franchised stores do you plan to open in China? How many company-owned?

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