

# Franchising: Large-scale Distribution Mode of Service Product

## A New Explanation based on Establishment of Franchising

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**Abstract:** Singer Sewing Machine Company (hereinafter, Singer) is regarded as the originator of franchising. Thus, this paper explores the evolution of Singer's sales mode to prove that franchising is in fact a large-scale distribution mode of service product. The prosperous development of franchising serves as evidences of global economy's inevitable transition from industrial economy to service economy.

**Key words:** Large-scale Distribution; Mode; Service Product

### I. Introduction

Franchising is considered as an important business mode in 21st century. Although scholars have conducted various discussions over its definition from multiple perspectives, so far it has not yet formed a mature and settled definition. Why franchising is generated is mainly explained by Resource Constraints Theory, Search Cost Theory, Risk Theory and One-side Moral Hazard, which in different ways illuminate

advantages of cooperation between franchisor and franchisee compared to franchisor's direct sales mode. However, applicable to explain why large-scale distribution mode is adopted for tangible products, these theories fail to fully point out the distinctiveness of franchising.

### II. Nature of franchising: From a Perspective of Historical Science

#### 1. Formation of Franchising: Speculation on Singer's Product Sale Process

##### (1) Singer's Initial Distribution Mode

Generally, established in 1865, Singer Sewing Machine Company ( hereinafter, Singer) is considered to be the originator of franchising. Born in the industrial era, it carried out large-scale production and sales of tangible product whose mass distribution is mainly complished through the partnership between producer and distributor.

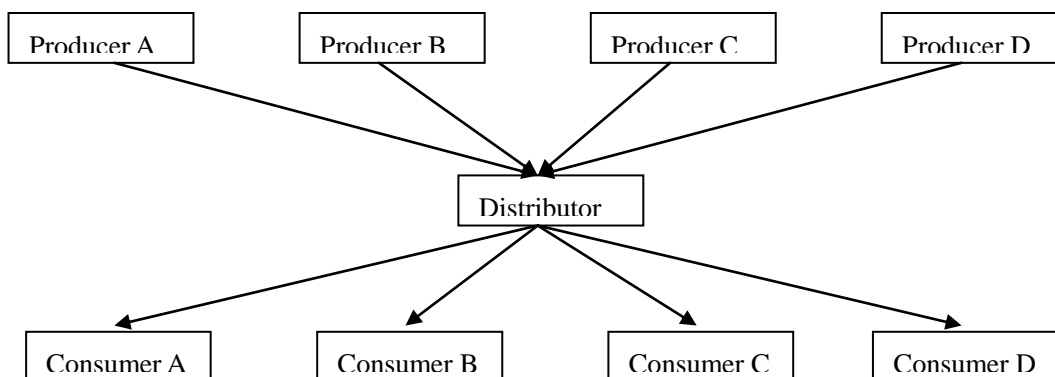


Figure 1 Producer-and-Distributor Relationship

Normally, the distributor who has its own tradename in one area simultaneously engages in sales of several producers' various products and consumers can purchase needed products from the distributor. Singer sewing machine was a new product at that time when most of clothing were hand-made. After its successful creation, the company took the mainstream distribution channel for granted to sell its products. In other words, it naturally found distributors all over the region in hope of selling products to local consumers with the help of them.

## **(2) Problems in Singer Sewing Machine's**

### **Marketing**

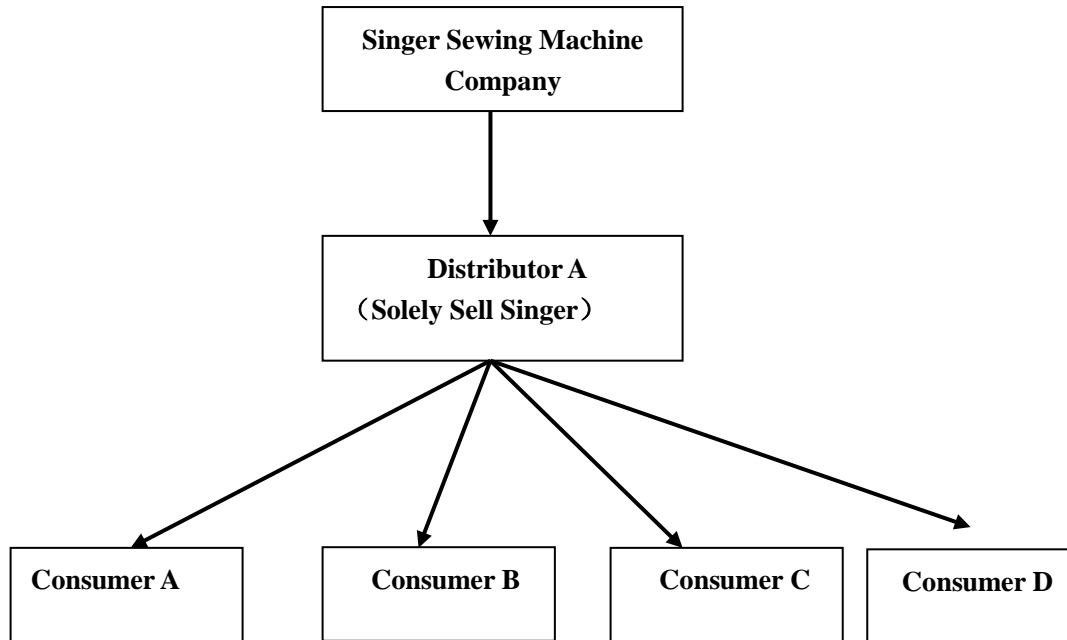
Singer's thought of that day might be that the sewing machine it promoted was high efficient against the background of hand-made clothing era, undoubtedly, it was supposed to receive warm welcomes from the market and rapidly became the best-selling, short-supplied and over-demanded product, but confident Singer disappointedly found the market conditions were widely divergent to its anticipation. So what on earth are problems encountered in Singer sewing machine's marketing?

As Singer's sewing machine is newly released, distributors are frequently required to present consumers its methods of application. Meanwhile, consumers would demand after-service from them. The author then suspects and concludes that the sale

requirements of this product are complicated for distributors who are also in charge of other products' sales. Even if it is not, after extra energies spent on selling it, it may still gain less profits compared to other tangible products with no need for presentation and maintenance. Hence, it would reduce distributor's enthusiasm in promoting such product which requires too many services. As before-and-after service cannot meet the demands, it tremendously affects sewing machine's sales although it has a huge market potential.

### **(3) Solutions: Find Exclusive Distributors**

After finding out the crux of the problem, Singer began to reach a consensus with some distributors who agreed to solely sell Singer's sewing machine and became the exclusive distributors willing to sell only one product instead of other products as long as enough selling profits would be offered by Snger. As sewing machine is exclusive distributor's only product, he would try his best to sell as many products as possible. To expand market demands, he is required to put time and energy in before-and-after service. As a result, he must patiently display and promote application methods of sewing machine and make sure good after-sale maintenance is provided. Currently, the relationship of producer and distributor has changed into the partnership between producer and its exclusive distributor.



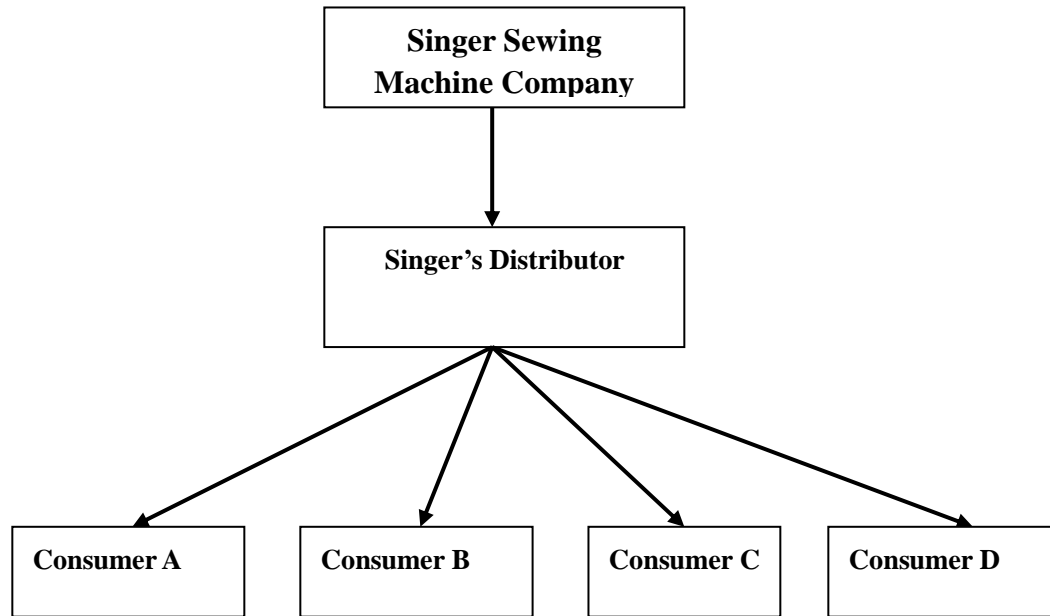
**Figure 2 Relationship between Producer and its Exclusive Distributor**

**(4) Product and Trademark Franchising**

After the establishment of exclusive dealership enables Singer to solve its problems encountered in its initial sales, Singer’s sewing machine drew more attentions of the market whose volumn of demands was also growing larger. At this time, exclusive distributors put forward a new request to replace its own trademark which has been using for a long time with Singer in order to attract more customers and achieve better sales performance since they no long sell other products but Singer’s sewing machine. To put it in another way,

distributors raise a request for Singer to grant them the use of its trademark.

Singer readily consented to their proposal which is beneficial for itself in selling more products. Hence, the first generation of franchising emerged and was named as product and trademark franchising which is a mode of business operation conducted by distributors specifically sell the producer’s products who grants its own trademark to be used by the former. It is shown below:



**Figure 3 Product and Trademark Franchising**

Singer's success radiates the charm of franchising and a wide variety of producers and manufacturers in other industries followed suit to build a national franchising network around the U.S. like Singer, among which beverage and automobile industries enjoyed the smoothest development since the 20<sup>th</sup> century.

## **2. Nature of franchising: Large-scale Distribution Mode of Service Product**

By means of above speculations over Singer's sewing machine sales process, we draw a conclusion that initial sales mode adopted by Singer belongs to distribution methods of tangible product which is quite common in that time. That is a cooperated distribution affiliation with local distributors. But Singer's new product widely differs from many products in the market of that period. Not only should Singer supply consumers with tangible product - sewing machine, but also it should offer intangible before-sale machine operation training service and after-sale maintenance service. Namely, what Singer offers to consumers is

not the single sewing machine, but a physical product along with intangible service. Practice has proved that the sales of sewing machine are unsuccessful when traditional distribution mode is adopted to sell pure tangible products. It illustrates that such distribution mode is not suitable to large-scale sale of servicing product despite its effectiveness in tangible product's sale. The reverse was also true that what is applicable to physical product distribution is unsuited to service product distribution. In the example of Singer, distributors who have their own trademarks and sell different commodities at the same time hardly concerntrate their efforts in providing display and maintenance services. The failure of Singer's original marketing lies in its selected distribution mode which cannot show the service element of the product to local consumers.

Why does not traditional distributors demonstrate customers how to use sewing machine and provide maintenance service? First of all, unlike visible sewing machine which is manufactured in advance, transported to dealers, and conveniently sold to customers, display

and maintenance services must be personally provided to customers after production. For the distributor who sells several products, his motivation to offer such services comes from excess profits gained through extra services besides pure tangible products.

Singer's solution to deal with the initial marketing problem is to find exclusive distributors who are willing to deliver good before-and-after service and assure them a higher profit level by solely selling Singer's sewing machine compared with that of other material products. It is franchising that propels the sewing machine of great potential to a rapid and hot sale. The cause of such a good market is no other than customer's resumption of missing display and maintenance services.

The reform of Singer's product distribution mode is that its distributors are no longer those who traditionally own their trademarks and sell multiple commodities; instead, they replace their own trademarks with Singer and exclusively sell sewing machines. Traditionally, service product cannot be rendered to the market in a large-scale, while in the reform it can be accomplished. Called as product and trademark franchising, such innovated method is regarded to be the first development phase of franchising. From here we could examine thoroughly that business franchising officially becomes the way to realize large-scale distribution of service product.

Franchising was created through the evolution of Singer's distribution channels. If that franchising is a large-scale distribution mode of service products cannot be intuitively understood in Singer's sewing machine which has prominent features as tangible products, then Business Format Franchising, which is the second development phase of franchising, comprehensively reveals its nature as a large-scale distribution mode of service product. It is known that consumer's demands having always been the primary driving force of economy development lead to the constant upgrades of industrial structures. Psychological characteristics of human's consumption

demands urge consumer goods more and more close to be intangible, thus driving the transition of human society and economy from product economy to service economy.

In 1960s, different types of service industry stepped into franchising, including catering, commercial service, notion store, convenient store, laundry, publishing company, hotel, and automobile leasing etc. Among them, McDonald's Corporation by Richard and Maurice McDonald and KFC by Harland Sanders in food industry are the earliest and most successful examples in franchising. In above service industries, an enterprise would completely grant the use of its own trademark, tradename, operation mode to others and allow them to open the same store in different regions in order to offer the same service product to local customers. Such business pattern is known as business format franchising, which is the exact distribution mode to achieve large-scale sales of service product.

### **3. Disparities between Franchising and Distribution Mode of Tangible Product**

Nowadays, in distribution mode of service product which is referred to as franchising, producer and distributor respectively go by the name of franchisor and franchisee. It elucidates the great disparities between distribution mode of service and tangible products which is determined by their essential nature.

The basic discrepancy rests with service product's intangibility so that in marketing unlike physical products which can be preserved and transported, service product requires just-in-time production and immediate consumption. Therefore, in distribution relationship of service product between producer and distributor, it is impossible for the latter to only fulfill its selling function like distributor of tangible product.

In the meantime, he is also required to undertake the reproducing function of service product, which decides that unlike the role of tangible product's producer, he needs to teach distributors the way of reproducing and supervise service product's quality other than only

transport products to distributors. It can be concluded that the distribution relationship formed by service product's producer and distributor is far more

complicated than that of tangible product. As it is shown in Figure 4 and 5:

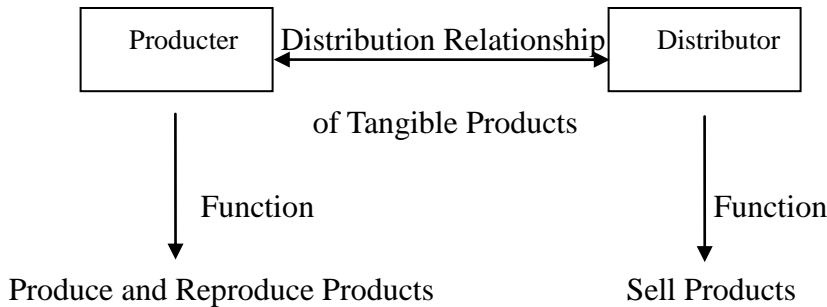


Figure 4 Function of Producer and Distributor

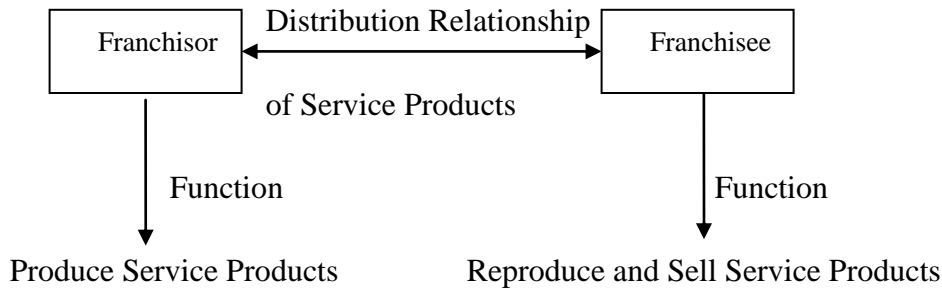


Figure 5 Function of Franchisor and Franchisee

In early 21<sup>st</sup> century, the number of employment in U.S. service industry accounts for over 80% of total employed people and its output value reaches over 75% of Gross National Product (GNP). In other developed areas like North America and West Europe, more than 70% labor force work in service industry and around 70% workers in manufacturing industry have been engaged in variety of invisible service activities. Among these countries, service industry has taken an overwhelming advantage over manufacturing industry, which indicates their entry into the era of service economy. Originated in America during the mid-19<sup>th</sup> century, franchising enjoyed a prosperous development in its birthplace and rapidly spread around the world. It is thought to be one of the most important commercial mode in 21<sup>st</sup> century. Why does

franchising experience a rapid rise in global market? Why is it perceived as an important commercial model in 21<sup>st</sup> century? We could find answers after shifting our thoughts from the era of industrial economy to service economy.

### III.CONCLUSIONS

In the age of service economy, service product is doomed to occupy a dominated position by replacing tangible industrial product. In the era of industrial economy, large-scale manufacture and sales of material product are its typical characteristic. Equally, there exists demands of large-scale production and sales of service product in service economy era. In reality, franchising is precisely the way for service product to achieve large-scale production and sales.

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