Pergamon

International Business Review 9 (2000) 479–496

INTERNATIONAL BUSINESS REVIEW

www.elsevier.com/locate/ibusrev

International retailing operations: downstream entry and expansion via franchising

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Abstract

In this paper, the shift into international franchising from other forms of operation, rather than the typical home market franchising base, is explored. The focus is international retail franchising, based on a study of the Danish clothing and footwear industry. In this study it was found that Danish companies were moving into international franchising as an outcome of a more general shift from upstream wholesaling and subcontracting activities to downstream involvement in retailing activities. Preceding establishments of foreign subsidiaries and company-owned retail operations seemed to be important in facilitating the move into franchising.

Keywords: International franchising; International retailing; Internationalisation; Foreign operation mode

1. Introduction

Research on the use of franchising in international operations has tended to concentrate on companies that have built franchising activities first within their domestic market before utilising that experience and the tried franchising system in the international arena (Walker & Etzel, 1973; Hackett, 1976; Walker, 1989; McCosker & Walker, 1992; McIntyre & Huszagh, 1995). Indeed, this research suggests that franchisors are loath to alter their basic franchising package, once developed domestically, for foreign markets. For example, Walker (1989) found that the bulk of

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PII: S0969-5931(00)00014-7

US franchising companies he surveyed had engaged in minimal changes to the marketing mix components of their franchising packages in international operations. Clearly, there are significant benefits in being able to experiment, modify and develop a franchising system within a local market first — learning how to operate the system and to manage a franchised network. If the resulting system and associated learning can be transferred to a foreign location with limited alteration, the transfer process thereby becomes easier and cheaper. Nevertheless, recent US research has stressed the additional demands on firm capabilities as a franchisor moves from domestic to international franchising, as a result of having to adapt to differences in the franchising and cultural environment (Fladmoe-Lindquist, 1996).

While there appears to be a dominant path of domestic to international franchising, there is conceptually no reason why there should not be other patterns of adoption of franchising as a form of international operations. Based on the experience of a small number of Australian companies' international franchising activities, Welch (1990) notes a diverse range of forms and paths to franchising use in international operations. One option used by Australian companies in expanding international activity was to add franchised outlets to existing foreign retail operations as a way of accelerating the process of international market penetration.

In this paper, we have sought to extend the investigation of the shift into international retail franchising from a base which includes other forms of foreign operations, but without commensurate domestic franchising development. The aim was to build a framework for understanding how and why franchising may be used as a means of expanding international retail operations at a later stage of internationalisation. The circumstances surrounding such a move into — and use of — franchising were investigated. Particular emphasis was given to the steps which precede, and contribute to, the company's ability to make the shift, as well as to other influential factors. In addition, the ways in which companies cope with the demands of what would seem to be an important new approach to international expansion were examined. Given the paucity of research on the shift into international retail franchising, the authors undertook an exploratory study of this shift by Danish clothing and footwear companies. The reporting of the empirical study follows an examination of conceptual issues and pertinent empirical research.

2. Shift to international retail franchising

Franchising in some respects can be considered an 'awkward' foreign market servicing mode when analysing its use from a theoretical perspective. In this article we shall focus on the business format version of franchising. While often categorised as a contractual mode, alongside licensing (Burton, Cross & Rhodes, 1997), in reality it may emerge through a number of other operation mode forms, as shown in Fig. 1. Within a generic category of franchising as the ultimate primary means of foreign market exploitation, this may be handled via a wide range of organisational types: for example, direct franchising (exporting equivalent), master franchising or area development (licensing equivalent — see Fig. 1 for a definition of these terms and