



# Market and partner selection processes in international retail franchising

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## ABSTRACT

This paper adopts a qualitative, case study approach to examine the market and partner selection processes of retailers operating internationally via franchising. Despite the increasing prevalence of franchising as an entry mode for international retailers, little research exists that considers how these firms choose franchise markets and franchise partners. The paper proposes a conceptual framework of the market and partner selection process that exhibits opportunistic and strategic behavior. Firms adopting a strategic approach undergo a market screening process before market attractiveness factors ultimately lead to the market selection decision. In the strategic partner selection process that follows, finance, business know-how, local knowledge, a shared understanding of the business and brand, and, ultimately, chemistry between the partners are the key factors influencing partner selection. In the case of an opportunistic approach to market and partner selection, the process reverses, with partner selection directly influencing market selection.

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## 1. Introduction

Employing the franchise mode of operation is a central element of internationalization strategy for many retail firms (Alexander and Quinn, 2002; Doherty and Alexander, 2004, 2006; Quinn, 1999). Consequently, the past decade bears witness to a growing body of work on various aspects of international retail franchising, specifically motivations (Doherty, 2007), retail franchising in emerging markets (Welsh et al., 2006), control and support (Doherty and Alexander, 2006; Moore et al., 2004; Quinn, 1998a, 1999; Quinn and Doherty, 2000), and the theoretical development of the area (Doherty and Alexander, 2004; Doherty and Quinn, 1999; Quinn and Doherty, 2000). However, a central element of the process – that is, how retail franchisors choose international markets and franchise partners – remains a crucial but neglected area of research. This is somewhat surprising given the centrality of these aspects of the process to the success or otherwise of an international retail franchise venture. This paper explores the market and partner selection processes in international retail franchising by examining qualitative evidence from six UK-based fashion retailers.

## 2. Literature review

### 2.1. International retail franchising research

In response to the growth of franchising by retailers and the failure of the broader international franchising literature to examine the

specifics of franchising by retail firms, academic retail research has increased during the past decade. This research examines international franchising from the perspective of the internationalizing retail firm (Alexander and Quinn, 2002; Doherty and Alexander, 2004, 2006; Doherty and Quinn, 1999; Petersen and Welch, 2000; Quinn, 1998b; Sparks, 1995; Welsh et al., 2006). For example, Sparks (1995, 2000) examines the international franchising activity of Ito-Yokado, Seven-Eleven, and the Southland Corporation, providing a detailed historical description of the firms' international evolution. Quinn (1998a) provides evidence from an ethnographic study of one natural cosmetics retailer's international franchising operations and highlights the importance of an approach from a prospective franchisee, as well as the international orientation of key decision makers in the company's initial decision to franchise in Sweden. Petersen and Welch's (2000) study of the international franchising experiences of the Danish fashion retailers Carli Gry and The InWear Group offers important insights into how these firms moved into international franchising as a result of a move from wholesaling and subcontracting activities into retailing.

Recent efforts advance theoretical explanations for the international franchising activities of retailers. Doherty and Alexander (2004) explain the relationship-building nature of international retail franchising in the context of relationship marketing, while, earlier, Alexander and Quinn (2002) put forward a conceptual framework of the process. Doherty and Quinn (1999) advance agency theory, commonly employed in domestic franchising research, to provide an explanation for the internationalization of retail firms via the franchise mode. In a subsequent paper, Quinn and Doherty (2000) apply both agency theory and the marketing channels literature to international retail franchising in an attempt to explain power and

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control. In terms of the operational aspects of the international retail franchise process – that is, power, control, support, and uniformity – most research attention has focused on power (Quinn, 1999; Quinn and Doherty, 2000; Moore et al., 2004; Doherty and Alexander, 2006). Apart from the work of Doherty (2005) on the nature of support in the international retail franchise process, the literature addressing operationalization of the support function in international retail franchising is limited.

In summary, this body of work provides valuable theoretical insights into the international retail franchise process generally, but the literature does not, in any notable manner, focus on the interaction of market selection and partner selection issues. Therefore, while the internationalization of franchising by retail firms addresses a growing number of themes, scholars have not investigated how retail firms decide which countries to enter and which franchise partners to choose. In the broader international marketing area, however, studies do exist on market and partner selection and the following section reviews this literature.

## 2.2. International market selection and partner selection research

The international marketing literature highlights the importance of systematically evaluating and selecting potential foreign markets (Anderson and Strandskov, 1998; Brouthers and Nakos, 2005; Kumar et al., 1993; Rahman, 2003). The resulting process is deemed to be linear, logical, and non-recursive (Gillespie et al., 2007). According to Kumar et al. (1993), the process takes a three-stage approach: screening, identification, and selection. Rahman (2003) identifies how successful Australian international businesses select their international markets. A two-stage process emerged from this work based on the evaluation of market size attractiveness and market structural attractiveness. Wood and Robertson (2000) identify market potential, legal issues, politics, infrastructure, economics, and culture as the most important market selection criteria for US-based exporters. Brouthers and Nakos' (2005) work on Greek exporting SMEs finds that those firms that had developed their own systematic way of selecting and targeting foreign markets by focusing on objective criteria tended to perform better than firms that adopt an ad-hoc approach relying on intuition and/or personal feelings to make their market selection choice. Other studies such as Koch (2001a,b) and Zhao and Olsen (1997) discuss market selection in light of entry mode choice.

Little research exists concerning how international franchisors choose partners in international markets. International joint venture activity (Al-Khalifa and Peterson, 1999; Geringer, 1991; Salavrakos and Stewart, 2006; Tatoglu, 2000; Ulas, 2005) and strategic alliances (Dong and Glaister, 2006; Hitt et al., 2004, 2000) dominate this body of work. Hitt et al. (2004) examine the institutional effects on strategic alliance partner selection in transition economies, focusing specifically on the Chinese and Russian markets. They find that Chinese firms take a long-term view of alliance partner selection, focusing on the partner's intangible assets as well as technological and managerial capabilities. Russian firms, on the other hand, because of their less stable institutional environment, focus on more short-term objectives such as access to financial capital and complementary capabilities. Tatoglu (2000) identifies a range of partner selection criteria for Western firms entering Turkey through the joint venture method. He finds that a partner's knowledge of the local market, trust between top management teams, and reputation of partner were the three top-ranked factors. The sectoral coverage in this study is wide, covering eleven individual sectors from chemicals to consultancy, yet it does not include the retail sector. In addition, Ulas' (2005) findings on the same market also identify the partner's financial situation, relationship with distribution network, and harmony in business approach and strategies as important partner selection criteria. Partner selection for Greek joint ventures in Eastern Europe (Salavrakos and Stewart, 2006) and joint venture partner selection in Bahrain (Al-Khalifa and Peterson, 1999) both exhibit broadly similar criteria.

Therefore, a significant gap remains in existing research addressing the questions of market and partner selection for retail firms with international franchise businesses. The current work aims to address this gap in the international retail franchise literature by providing qualitative evidence from six UK-based fashion retailers with international franchise operations.

## 3. Methodology

### 3.1. Research rationale

An interpretive paradigm frames the current work employing qualitative techniques and a case study design. It is exploratory in nature (Yin, 1994) and continues the qualitative approach common in international retail franchising research (Doherty and Alexander, 2004; Quinn, 1999) by employing a case study design to develop an understanding of the process of market and partner selection by international retail franchisors and the factors influencing the process. In order to guide the collection of data (Eisenhardt, 1989), this study has the following objectives:

1. To explore how international retail franchisors select international markets.
2. To identify the key factors influencing the process of market selection for international retail franchisors.
3. To explore how international retail franchise firms choose international franchise partners.
4. To identify the key factors influencing partner selection for international retail franchisors.

The following outlines the research methods adopted to answer these research questions.

### 3.2. Research methods

The data collection utilized three key aspects of case study research, that is, interviews, documentation, and observation. The six case companies made documentation available, such as press releases, franchise manuals, franchise contracts, and consultant reports including country profiles and profiles of potential partners. The study used a limited amount of direct observation, relative to the proportion of data collected by interviewing and documentation. Triangulating the data by source, rather than by method, was a useful means of improving the validity and credibility of information and ensured that viewpoints represented varying levels of responsibility within the case firms. In order to maintain confidentiality, quoting from what the case firms considered to be sensitive documentary material was precluded due to the legally sensitive nature of the documentation.

Interviewees included senior managers and personnel employed at functional levels within the case companies. Questions revolved around how the firms' international franchise networks had evolved, the international retail franchising process, the process of determining markets to enter, factors influencing country choice, the process of finding a franchise partner, and the factors that influence partner choice. The research design included a total of eighteen semi-structured senior management interviews, with the majority of interviews lasting at least 90 min. All respondents at this level were either in charge of international operations within the case firms or in very senior management positions. Their titles ranged from Director of Business Development, Business Development Manager, and Director of New Business Development to Commercial Director for the International Division, Import/Export Manager, and Director of International Operations.

Functional level interviewees included individuals involved in retail operations, marketing, sales, finance, country management, and

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