

# Effective international marketing in globally franchising firms. assignment

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## EFFECTIVE INTERNATIONAL MARKETING IN GLOBALLY FRANCHISING FIRMS.

**Overview** The decision to take a company outside the the company's origin involves careful analysis of risk and benefit factors, consideration and selection of potential markets, planned market entry, and development of market penetration over time. While this can be done through a number of strategies, franchising is a growing means of achieving international presence. **DECIDING TO FRANCHISE INTERNATIONALLY** With the increase in international franchising and its impact on marketing, a number of studies have been conducted on various related aspects.

One first consideration in literature is what leads to the decision to go international, and how this stimulates marketing within the firm. It is first helpful to consider the relationship between parent companies and their subsidiaries, whether franchises, partnerships, or company-owned outlets. Structurally, large multinationals such as McDonald's and Benetton are "better viewed as inter-organisational networks than monolithic hierarchies," because each subsidiary can take actions that affect the company as a whole (Birkinshaw 2000, 2).

Corporate structure is determined by interplay between parent and subsidiary, with both responding to and driving needed changes in the business environment (Birkinshaw 2000, 4). Sometimes it will be the subsidiary that pursues markets, making a "proactive and deliberate pursuit of a new business opportunity" in order to "expand its scope of responsibility" (Birkinshaw 2000, 2). Eroglu (1992) studied determinants in firms' decisions to franchise internationally. He found two sets of "

perceptual variables ??? perceived risks and perceived benefits ??? ”  
determine a company’s decision (19).

When the perceived benefits outweighed the perceived risks, the company would proceed with expansion. Cost/benefit analysis is one common method for measuring benefits versus risk, but again, is filtered through the perceptual opinions of decision makers. It is therefore to consider the variables as perceived benefits and perceived risks (Eroglu 1992, 23). In addition to push and pull factors, there are two theories in the study of franchising that explain the decision to move into international locations. Both address one of the most debated topics in franchising research: why the parent company would want to franchise, when company-owned units provide a higher rate of return (Elango and Fried 1997, 69). Once a business achieves a certain size, it is more profitable to the parent company if wholly owned. For example, a typical franchisee may make a forty percent margin, and pay half of that to the parent company. “ With the right economies of scale, the franchisor could recoup more of that profit margin by owning the company outright” (Hoar 2003, 78).

The first, resource scarcity theory, contends that companies lack the resources such as capital, local market knowledge, and managerial talent to open international outlets on their own (Altinay 2004, 427). By recruiting local franchisees who supply capital, management, and knowledge of the local market, franchising organisations can achieve internationalisation not otherwise possible (Altinay 2004, 427). The parent company would not be

able to expand, particularly on an international level, without the assets offered by the franchisee.

This theory is more easily applied to small and medium-sized firms which obviously lack the assets for internationalisation than it is to either McDonald's or Benetton. Interestingly both organisations do have some company-owned holdings. For McDonald's part, Ray Kroc once contended he was in the real estate business, not the restaurant business, citing the large passive income generated from the leasing of McDonald's properties to individual franchisees (Vignali 2001, 97). Agency theory is based on the relationship between the principal party, in this case the parent company, who owns or control a set of economic assets or functions.

They delegate work to the agent, in this case the franchisee, who operate on the principal's behalf (Doherty and Quinn 1999, 227). The theory stresses the importance of the process of the transfer of information, the problem of information asymmetry, and monitoring costs associated with both (Doherty and Quinn 1999, 224). Jensen and Meckling (1975) explain information asymmetry problems occur because the franchisee has detailed information about franchise operations that are not communicated to the parent company, and this causes division between the aims of the parent company and the franchisee.

This is enhanced by the natural tendency for franchisees to operate in their own best interests, even at the expense of the parent company (Altinay 2004, 427). Applying Agency Theory to a firm's decision to franchise internationally, the company usually does so on the basis of lower costs and

decreased risk. Since salaried managers would be likely to under perform, going with franchisees increases the likelihood of dedicated performance, and therefore reduced monitoring costs (Elango and Fried 1997, 71).

Franchises “ provide the parent company advantages such as economies of scale in marketing and production, while providing or entrepreneurial discretion at the unit level” (Elango and Fried 1997, 68). In addition, franchises impact the overall marketing strategy and specific marketing activities of the firm as a whole. Any increase in business activity, such as new outlets or product, should generate additional marketing. In particular, international franchising usually requires adaptation of marketing products to the local cultures.

In the case of Benetton’s social awareness campaigns, marketing product was intended to be used globally, although some areas and retailers found some of the photos disturbing or inappropriate (Barela 2003, 118). While the series certainly raised awareness and sales did increase during the time they were in use, there is contention whether the marketing scheme helped or hurt retailers’ bottom line in many locations (Barela 2003, 118). This often leads to the company adapting its global marketing strategy and components for a specific geographical region or cultural group (Vignali 2001, 97).

MARKET CHOICE Choice of market has also been a subject of much research. “ Each?? concept and country must be considered separately in relation to a multitude of issues about the market, potential franchisees, legal matters, receptivity to franchising in general, and feasibility of the particular concept”

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(Maynard 1995, 69). “ In international markets, franchise relations are influenced by the extent to which the overseas franchise system can be transferred into the local market in terms of product acceptance, suitable local presentation and transferable support services” (Connell 1999, 86).

Legal concerns are of particular importance, since they differ so greatly from country to country. For example, there is currently no legislation in the UK that regulates franchising (Hoar 2003, 77). The European Union adopted block exemption for franchises, which protects them from antitrust laws. “ France, Mexico, and Brazil have enacted laws similar to those of the United States, requiring franchisors to provide presale disclosure to prospective franchisees, while Australia and Italy have adopted voluntary codes pertaining to presale disclosure and other requirements” (Maynard 1995, 71).

Altinay (2004), citing a number of research studies, determined that several organisational determinants directly impact market choice. Organisation size greatly determines the number of franchises that can be supported, as each must be supplied with product and support (Altinay 2004, 429). Operating and international experience have both been shown to positively effect the decision to franchise. In general, the greater the experience of decision-makers, particularly if they have lived or worked abroad successfully, the greater likelihood they will pursue markets beyond current operations. Altinay 2004, 429). Company leaders may also recognise that competitive pressures in current markets make growth and expansion there unlikely or prohibitively expensive. Similarly, the external environment of the markets

under consideration may make them more or less attractive to potential investors (Altinay 2004, 429). For example, some governments have highly restrictive business laws, while others provide little or no protection for franchisers. The former makes both starting and doing business difficult, while the latter puts the franchiser at risk.

A supposed franchisee could simply take the business model or proprietary systems and go out on their own, cutting the franchiser out of their rightful position in the relationship. Other researchers have concluded geographical and cultural proximity are major determinants of market choice (Alon and McKee 1999, 76-77). Specifically, organisations will choose markets based on their physical closeness or cultural similarities to the head office. For example, the areas most likely to begin franchises of UK businesses are Ireland and France, while US franchisers first target Canada and Mexico (Alexander and Doherty 2003, 15).

The logistical issues of transporting people and product are greatly reduced when franchises expand into nearby countries, rather than ones far removed. After geographically immediate countries, the next areas targeted for franchise are those with similar cultures to the organisation's host country (Alexander and Doherty 2003, 15). For example, UK retailers franchising in the US, Canada, or Australia can expect relatively similar customer groups, requiring little adaptation of product or marketing materials. Training, advertising, and other organisation material can remain in English, with no need for translation or significant cultural variations (Alexander and Doherty 2003, 16). In practice, some franchisers leave

market choice almost entirely up to the initiation of franchisees, while others are more proactive. In a best-case scenario, both the subsidiary and parent company evaluate the local market, the internal market, and the global market when considering possible markets (Birkinshaw 2000, 9). For example, McDonald's both requires market justification from franchisees and carefully evaluates each new market opportunity before allowing franchisees to proceed (Vignali 2001, 97).

Market approval is heavily dependent on resource allocation, that is, there must be sufficient resources available and available at that location for the market choice to go forward (Birkinshaw 2000, 45). MARKET ENTRY Various factors have been found to contribute to the method, location, and timing of market entry. First, there are a number of different methods used in international expansion and franchising. Direct franchising, joint ventures, and master franchising are all common. In direct franchising, the parent company seeks out potential franchisees in market areas it has selected for development (Maynard 1995, 66).

While it requires greater involvement by the parent company, it also allows the organisation to be more selective in franchisee choice and therefore have more control over the foreign operation (Maynard 1995, 68).

Franchisees may be solicited through newspapers or similar media outlets, but are more commonly sought through recommendations of other successful franchisees (Noren 2001, 62). Sometimes the parent company actually joins with a local firm to move into a foreign market. This can be

through acquisition or merger, but is more commonly accomplished through a joint venture.

This is when the companies join forces to create a distinct third company owned by both partner firms" (Maynard 1995, 66). "Joint ventures create more-cumber-some tax and financial issues than the other two approaches, but they have other advantages, which vary depending on the partnership arrangement" (Maynard 1995, 68). The created company then sometimes initiates or supervises franchise relations within its country or geographical region, and sometimes oversees company-owned units (Maynard 1995, 68). Some initiatives put forth by franchisees involve operations within the company. The most critical facilitator of internal market initiatives is the credibility of the subsidiary in the eyes of the parent company" (Birkinshaw 2000, 26). Such initiatives are geared towards rationalising and reconfiguring the systems within the parent company and increasing the efficiency of resource use, rather than improving external variables or increasing the firm's resource base (Birkinshaw 2000, 27-28). Overall, direct and master franchising are the most commonly used methods for market entry by UK firms. They allow firms of various sizes, from small chains to large multinationals, to successfully internationalise.

Companies can both grow globally and "reap the benefits of size without sacrificing the benefits of local presence" (Birkinshaw 2000, 1). The British Franchise Association (BFA) reports nearly seven hundred franchise systems are currently operational in the UK, accounting for more than 30,000 business units (Hoar 2003, 77). These franchises employ 330,000 people,

and represented a total turnover of ? 9. 5 billion in 2002 (Hoar 2003, 77).

While British firms have been slow to franchise overseas, particularly compared to companies from the US and Japan, they are rapidly catching up.

Over one-third of British retailers with operations outside the country employ franchising to some degree (Doherty and Quinn 1999, 225). This number increases with the number of countries in which a particular firm has operations (Hoar 2003, 77). Factors driving franchising's international expansion " include heightened awareness of global markets, relaxation of trade barriers, saturation of some existing domestic markets, increasing prosperity and demand for consumer goods in many regions overseas, and increasing ease of doing business internationally because of improved communications and transportation systems" (Maynard 1995, 66).

Both McDonald's and Benetton have been impacted by at least three of these variables. DEVELOPING THE LOCAL MARKET Finally, entrepreneurs exhibit various strategies to develop the local market, even if they do so as agents or franchisees of a global firm. The traditional role of a subsidiary or franchisee is to adapt the parent company's product to local tastes, " then act as a ' global scanner,' sending signals about changing demands back to the head office" (Birkinshaw 2000, 21).

Examples of this would be McDonald's menu changes, often suggested or proposed by local franchisees, and the use of Ronald McDonald as a spokesman, which was first initiated by local franchisees (Anon 2003, 16). It is imperative, therefore, that large organisations, particularly those that franchise, create systems and structural contexts in which local

entrepreneurial activity is both encouraged and controlled (Birkinshaw 2000, 31).

If no such structure exists, franchisees will often act as free agents, making decisions and taking actions “ that they believe are in the best interests of the corporation as a whole,” whether or not these conform to the expressed desires of the parent company (Birkinshaw 2000, 2). Research indicates that four factors enhance initiative at the subsidiary or franchise level:?? autonomy, resources, integration and communication (Birkinshaw 2000, 31). High levels of autonomy and resources enhance local and global initiative, but detract from internal initiative.

High levels of integration and communication enhance internal initiative, but detract from local and global initiative (Birkinshaw 2000, 31). “ Local market initiatives are facilitated most effectively through a moderate level of autonomy in the subsidiary coupled with a fairly strong relationship with the parent company” (Birkinshaw 2000, 23). In terms of marketing, local franchises have valuable input needed by the marketing teams at the corporate office, and should be respected for both their ideas and their first-hand knowledge of whether something is working.

If this does not occur, the company will suffer from information asymmetry problems, as previously discussed under agency theory (Doherty and Quinn 1999, 224). When McDonalds decided to use famous athletes in its promotional materials, ads, and television commercials several years ago, they queried local franchisees for suggestions. As a result, the company was able to choose sports figures recognised in each market area, rather than

one internationally known athlete, such as a Tiger Woods, who might have less impact in local markets (Vignali 2001, 97).

A basketball star was featured in ads in the United States, a footballer in the UK, and so forth. This allowed McDonalds to project a locally appropriate image through its marketing campaign and further position align local franchises as part of the community, rather than as a foreign restaurant (Vignali 2001, 97). The company was able to do this because they had previously established systems by which ideas and input could be communicated back and forth between franchisees and the corporate headquarters (Vignali 2001, 97).

Developing market requires initiating or building the demand of the public for a product, and positioning and pricing the product where it is available to meet such public demand (Johnson and Scholes 2002, 370). The entrepreneur franchisee, therefore, has several strategies available. He or she can make suggestions to the corporate office. These are more likely to be well received if backed by solid market data, particularly data not available to headquarters. The entrepreneur can produce his or her own marketing scheme, if not prohibited from doing so by headquarters.

He or she can become highly active in community activities and use the franchise or its products for market development. In the case of Benetton, local retailers could, for example, become involved with groups addressing world hunger. Whatever the strategy, it must result in an increased affinity for the consumer towards the product, brand or retailer, and a corresponding increase in purchasing. REFERENCES Alexander, N. , Doherty, A. M. 2003.

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