



# I nternational marketing strategies adopted in the franchise internationalization process: a multiple case study in the apparel industry

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## Abstract

**Objective:** This study investigates the antecedents of three Brazilian franchisors' internationalization processes in relation to their international marketing strategies. The literature review discusses the theme focusing on adaptation versus standardization of the marketing strategy.

**Method:** A theoretical model is proposed for the empirical investigation including the internal and external internationalization antecedents, the international marketing strategy, and the firm's degree of internationalization. A qualitative, exploratory, empirical investigation based on a multiple-case study was conducted with three large Brazilian franchisors in the fashion industry.

**Relevance:** The study highlights the relevance of international branding for the internationalization process as well as the role partners/franchisees play in building and managing brand image abroad.


**Results:** The results show that the most important antecedents in the franchisors' internationalization process were at the firm level (company size, resources, and capabilities; brand strength; international orientation, and experience), with special emphasis on the brand as a crucial asset. The international marketing strategies were to both adapt the marketing elements to the needs and characteristics of the host market and centralize strategic decisions to maintain a consistent brand image. This posture follows the semi-global marketing strategy.

**Theoretical contribution:** This study contributes to the knowledge about the factors that influence the decision to internationalize and the international marketing strategies used by Brazilian franchisors abroad. Managerial recommendations are presented for franchisors seeking internationalization.

**Keywords:** International Marketing; Firm Internationalization; Franchising; International Franchising; Marketing Strategy.


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## 1 Introduction

According to the Brazilian Franchise Association (ABF), since 2001 the revenues of Brazilian franchises have grown significantly above the Brazilian GDP. In 2016, the industry earned R\$ 151 billion - a growth of 8.3% over 2015 (ABF, 2017). In the world context, Brazil ranks sixth in franchising, with 142,593 franchised units, behind the United States (795,932 units), China (330,000), Japan (260,992), South Korea (194,199) and the Philippines (150,000). In the number of franchise networks, Brazil ranks fourth with 3,039 networks, behind only China (4,500 networks), South Korea (4,288) and USA (3,828 networks) (WFC, 2016).

In spite of the considerable size and importance of the franchise sector for the Brazilian economy, Brazilian networks with overseas operations still account for about 5% of the total, with 138 Brazilian franchise networks internationalized within the total 3,039 networks (Rocha et al., 2016, ABF, 2017). By comparison, in the early 1990s, 20% of the US franchise networks were already operating overseas (McIntyre & Huszagh, 1995). In 2016, the four largest American franchises in number of units had the following percentages of units outside the United States in relation to the total number of units: the 7-Eleven network with 85% of its units abroad; the McDonald's network with 47%; the Subway network with 40%; and the Dunkin' Donuts network with 28% (Entrepreneur, 2016).

Between 2012 and 2014, 16 Brazilian franchises opened operations abroad, while nine others that were in only one country closed their international franchises. These numbers indicate a movement toward experimentation. Some of these companies give up, while others continue to seek internationalization (Rocha et al., 2014). The main difficulties pointed out by the internationalized Brazilian franchises are: lack of knowledge of foreign markets; cultural differences; operational and legal barriers; and difficulties in the selection of franchisees (Rocha et al., 2014; Almeida, Lanfranchi & Melo, 2018). An important factor is the lack of interest in expanding abroad when there is still a vast internal market to conquer (Khauaja, 2012).

Most of the studies on the internationalization of franchise networks are focused on companies from the United States, Europe, or Asia (Welsh et al., 2006, Deng, 2012, Grunhagen, Dant, & Zhu, 2012, and Merrilees, 2014). There are still few studies focused on the reality of

Brazilian franchises such as Dant, Perrigot, and Cliquet (2008) and Grosse (2016). Thus, bringing new perspectives and testing concepts with samples from other countries allows us to complement the findings of previous research (Roh, & Yoon, 2009; Jell-Ojobor & Windsperger, 2013; Dant & Grünhagen, 2014).

This study was based on a model developed for Chinese franchises (Deng, 2012), seeking to critically analyze its adequacy for Brazilian franchises, regarding the antecedent factors of the process, that is, the reasons why Brazilian franchises choose to internationalize their operations. In addition, we analyze the role of international marketing in this process, specifically in terms of the degree of adaptation and standardization of the marketing compound to better perform in the target markets. International marketing is responsible for identifying, measuring, and seeking opportunities in the external environment, guiding companies regarding their positioning, market segmentation, and marketing program (Cavusgil, Knight & Reisinger, 2014).

For that, a qualitative exploratory research study was conducted using the case study method with three large networks of Brazilian franchises in the clothing sector with a great deal of international experience. The first franchise has been in business abroad for 20 years and operates in four countries; the second has twelve years abroad and exports/operates in 31 countries; and the third has twelve years abroad and operates in three countries.

## **2 Theoretical review**

### **2.1 Background factors of the internationalization of companies**

The two main theoretical factors that explain the motivations for the internationalization of companies, whether they are franchises or not, are based on economic and behavioral perspectives. The economic factor emphasizes rational decision making in order to maximize the economic returns of the enterprise. The perspective based on behavioral criteria focuses on the attitudes, perceptions, and behaviors of decision makers on where to expand and how to do so in order to minimize risks (Carneiro & Dib, 2007).

The economic factors that influence organizations entering international markets include organizational development, search for expansion, learning curve (Wiedersheim-Paul, Olson & Welch, 1978; Welch, 1990), availability of financial resources (Doherty, 2007), the political and economic stability in the foreign market (Hackett, 1976; Hutchinson et al., 2004), the degree of maturity and knowledge (Welch, 1990), and management experience (Mariz-Perez & Garcia-2007). Competitive pressures and the saturation of the domestic market must also be included as economic factors motivating internationalization (Eroglu, 1992; Welch, 1990; Doherty, 2007). Considering behavioral motivations, Eroglu (1992) cites risk tolerance by top management, perceived competitive advantage of the firm, and the influence of external agents. Other facilitating factors would be the global vision or global mentality of the company, the entrepreneurial personality, and the personal relationship of executives with foreign markets (Hutchinson et al., 2007). Several studies show the significant influence of top management attitudes on the decision to internationalize (Bilkey & Tesar, 1977; Cavusgil & Nevin, 1981; Wiedersheim-Paul et al., 1978). As factors of the external environment, Hutchinson et al. (2007) point out business contacts in foreign markets, government support, and the decision to respond to opportunities in foreign markets.

Factors such as governance, favorable policy, the country's business climate, entry regulations, taxes, and infrastructure for communications were presented as drivers for the decision to expand US franchises abroad (Hoffman et al, 2016). In the Brazilian context, Steinbruch et al. (2016), presented the determinants for internationalization such as cost, control, low risk, low cultural distance, geographic distance, internationalization speed and total travel time, multinational firm experience, market attractiveness, incentives of Brazilian entities, choice of the right partner, and return of the operation.

## **2.2 The process of internationalization of franchises**

Following the logic of the gradual internationalization process of the Uppsala model (Johanson & Vahlne, 1977; 2009), even franchisors in the domestic market do not always choose franchising as a mode of entry. Sometimes franchisors enter the foreign market with another

strategy (export, for example) and only later, after a better understanding of the market, do they establish franchises (Welch, 1990). The process of internationalization of Brazilian companies has shown similarity for the gradual and sequential process of internationalization, the first choice of countries with less psychic distance, and a strong influence of relationships on the internationalization process (Hilal & Hemais, 2003).

Thus, managerial experience is important for internationalization. Experience in franchising is important for a good performance in this mode of entry, as franchisors need experience to select the right agents, reducing risks and maximizing the chances of success in international ventures (Baena & Cervino, 2012, Elango, 2007; Quinn & Doherty, 2000). The franchisor companies with the most experience, industry knowledge, and good performance record draw the attention of potential franchisees, since they enjoy proven results and have accumulated a positive reputation (Baena & Cervino, 2012).

The concept of the franchise system allows the business to be adapted to different cultures and environments. In emerging markets, for example, this system offers support and competitive advantages to local investors, often without a history of entrepreneurship, through the use of successful products and well-known brands (Khauaja, 2012).

However, there are challenges. Despite the trend towards the globalization of cultural values, there is a need, to greater or lesser extents, to familiarize consumers of local markets with certain franchised products and services (Justis & Judd, 1989). International franchisors should familiarize themselves with the customs, culture, and way of doing business (codes of ethics, laws, ties of trust) in other countries. Local franchisees can help a lot in this learning process (Khauaja, 2012).

In this same sense, a study carried out with networks of foreign and domestic franchises operating in Brazil has shown that foreign franchises have a higher investment rate, lower control capacity, and higher maintenance rates than Brazilian franchise networks, mainly on account of cultural distances and adaptive needs. Furthermore, domestic franchises have greater capacity for growth in the Brazilian market, precisely because expansion in the local market is less costly. These results show that foreign franchises, even those with strong international reputations, must adapt their models and understand the context and needs of the local market in a profound way (Isaac et al., 2018).

Seeking to comprehensively comprehend the internationalization decision-making process of emerging market franchises, specifically Chinese franchises, Deng (2012) conducted content analysis on 121 articles published between 1991 and 2010 on China's internationalized franchises. In Deng's (2012) study, we identified three categories of analysis that could support a research model that reflected internationalization: antecedents, processes, and results. The factors that preceded the decision to internationalize were presented at two levels, internal and external. The internal factors of the organization were the type and size of the company, its resources and capabilities, participation in business networks in China, the company's export grade, as well as the senior management experience and international orientation.

In addition to the internal factors, Deng (2012) made a list of antecedents related to external aspects, both related to the local and international market. This list of antecedents reflects the decision-making process under the perspective of analysis of the structure of the industry (relative position of the company, orientation of the sector towards internationalization, competition level, saturation, and price wars in the domestic market). The antecedents are analyzed under a transaction perspective, such as project overhang, high versus low profile investments, and the search for strategic or market assets. Deng (2012) also considered the institutional antecedents, highlighting the negative institutional factors of the country of origin and the positive aspects of the target country (considering the role of the government), including cultural and informal factors, emphasizing the importance of cultural proximity. Thus, Deng (2012) proposed a model to be tested in other emerging markets.

### **2.3 Internationalization of Brazilian franchises**

The internationalization of Brazilian franchises represents a more recent phenomenon compared to the experience of European and North American countries. The average time of experience of Brazilian franchisors abroad is eight years, while the franchises present in Brazil have an average of 24 years of international experience (Rocha et al., 2016). Since 2010, the internationalization of Brazilian franchises has grown, even though most of the networks still operate in an experimental stage, with low financial commitment, and in few markets (Rocha et

al., 2016). The mode of entry of Brazilian franchisors does not necessarily occur through franchising, and may be via direct or indirect export. Following the precepts of the Uppsala School, companies subsequently adopt direct investment models (Khauaja, 2012).

Most Brazilian franchises first develop competitive advantages in the domestic market, and only after many years accumulating resources and skills, they venture into foreign markets. The first target markets tend to be countries that are both geographically and culturally similar, in terms of culture, language, religion, educational level, and administrative and economic aspects, as a means of reducing risk (Cyrino et al., 2010). According to data from ABF (2016), Brazilian franchisor brands with a presence abroad are mainly concentrated in the United States (49 brands) and Portugal (26 brands), and in Latin American countries such as Bolivia (14 brands), Colombia (13 brands), Argentina and Mexico (12 brands), as well as Chile, Uruguay, and Angola (11 brands). With the exception of the United States, it is perceived that this movement favors countries with greater linguistic or geographical proximity.

According to Marques et al. (2005), the economic factors that drive Brazilian franchises to the internationalization process include market niche opportunities abroad, market size and population income, expansionary organizational goals, economies of scale, political-legal conditions of the destination market, the international expansion of competitors, limited opportunities for expansion in Brazil, and the entry of international competitors. The main behavioral factors are to strengthen the image of the company/brand, interest from international entrepreneurs, personal desire of top management, and cultural proximity with the destination country (Marques et al., 2005).

Some franchise networks in Brazil go abroad with a low degree of professionalism, without much criterion in the selection of partners, only reacting to opportunities. This highlights the need to plan for expansion, and to establish appropriate organizational structures and business models (Rocha et al., 2016; Khauaja, 2012). The accumulation of resources in terms of managerial talent and experience as a franchisor should be aligned with a managerial mental model characterized by a global vision, long-term focus, proactivity, and knowledge-seeking about external markets (Khauaja, 2012; Bretas, Galetti & Rocha, 2019).

The characteristics of the countries where Brazilian franchise networks operate abroad, such as those that show trust and ease of doing business, are the main motivators for the success of the operation (Melo et al., 2015), as well as the marketing strategies adopted.

## **2.4 International Marketing Strategy**

International marketing is defined as the identification and measurement of opportunities in foreign markets, satisfying global consumer needs better than domestic or international competition (Terpstra & Sarathy, 2000). When a firm decides to internationalize, its international marketing strategy includes the definition of an action plan for foreign markets that will guide decisions about the positioning of the company and its products or services, aiming to meet the needs of the consumers in those markets and to ensure a good performance in the foreign market. International marketing strategies vary according to the choice between adapting and standardizing the elements of the marketing program (branding, product, price, distribution, and marketing communication) in each destination country (Ghauri & Cateora, 2010; Cavusgil et al., 2014).

Adapting the international marketing program entails developing new products and services or introducing changes in current products, prices, distribution or communication, taking into account the specific demands, and characteristics of the foreign market in order to achieve greater customer acceptance (Douglas & Craig 1989, Zou & Cavusgil, 2002). Adaptation is seen as particularly useful when international marketing managers consider it a priority to meet local specificities (Cavusgil et al., 2014). Organizations with local strategies adapt and carry out their actions, from development to product positioning, according to local needs (Yip, 1995). The choice for this type of strategy also depends on the local capacity to manage some important aspects of the operation, because in the case of less developed countries, there is a shortage of skilled human resources capable of managing strategic areas (Douglas and Craig, 2011).

A standardization approach implies that the company maintains uniform components of the marketing program in different regions of the world, aiming to increase sales in the international market when and where the consumer wants the original product and the same components of the international brand (Cavusgil et al., 2014). Standardization creates a consistent image of the



product in the different markets in which the company operates. It also contributes to the reduction of production costs and to the formulation and implementation of a single marketing plan (Keegan, 2005; Szymanski, Bharadwaj & Varadarajan, 1993). However, this posture makes it impossible to meet more specific market needs (Zou and Cavusgil, 2002). Douglas and Craig (2011) explain that the global marketing strategy is more common in sectors such as luxury, fashion, and microprocessors where competition is global and the same product can be sold worldwide.

In the process of internationalization, managers often need to find the ideal balance between the overall integration of the value chain activities of the company, to take full advantage of the similarities between countries, and the local reactivity to meet the specific needs of the consumers of each country. This search for equilibrium necessarily affects the decisions about standardization and adaptation of the elements of the international marketing program (Cavusgil et al., 2014).

A criticism of the standardized global product strategy is that it can alienate potential customers and leave employees insensitive to the needs of different types of customers (Vrontis, 2003). For Douglas and Craig (2011), the diversities of market conditions, including consumer heterogeneity, competition, and different infrastructure conditions, make a standardized global marketing strategy impractical. Companies can develop a semiglobal marketing strategy - a mix of standardized and market-driven actions involving different localities, resulting in greater autonomy at the local level (Douglas & Craig, 2011). The marketing team of semi-global organizations should identify countries and consumer groups with homogeneous characteristics and, from this, segment the groups, position the product according to each segment, decide the strategies of the marketing compound, and decide what activities will be adapted or standardized, taking into account local needs and also seeking cost reduction (Cavusgil et al, 2012).

According to Pralahad and Doz (1981), decisions regarding the “non-product” elements of the international marketing program need to be constantly altered to monitor and adapt the behavior of foreign markets more efficiently and at greater speed. However, decisions related to the “product” (product characteristics, brand name, and product positioning) are characterized by a higher level of standardization (Özsomer, Bodur & Cavusgil, 1991).

Merrilees (2014) identifies the influence of international marketing and branding strategies as one of the gaps in the literature on franchising internationalization, especially since branding is one of the most critical components of franchising systems,

Brand appeal represents a significant advantage offered to potential franchisors (Roh & Yoon, 2009, Merrilees & Frazer, 2013, Merrilees, 2014). In general, franchising emphasizes a standardized international marketing strategy with strong, globalized products and brands. However, this does not imply total uniformity, since franchisors can, to a certain extent, adapt the offerings to local tastes and needs (Cavusgil et al., 2014).

However, effectively managing a brand poses a major challenge for franchisors as the responsibility for developing, managing, and sustaining the value of a successful brand is shared by all parties involved in the franchise agreement, and none of them have complete control of the management process. This codependency suggests that the success of franchise branding activities should be well coordinated and integrated, with well-defined and supervised responsibilities between parties (Pitt, Napoli & Van der Merwee, 2003).

Thus, an important decision within an international franchise marketing strategy involves the concentration and coordination of marketing activities (Birkinshaw & Morrison, 1995; Yip, 1995). Concentration occurs when marketing activities (promotional campaign development, pricing decisions, distribution activities, and after-sales services) are concentrated in some countries where they can be carried out more efficiently and with greater synergy. The coordination of marketing activities refers to planning and execution on an interdependent and global scale of activities in different countries (Zou & Casvugil, 2002).

### **3 Conceptual model**

The conceptual model developed, according to Figure 1, presents three categories under investigation for the process of internationalization of Brazilian franchises: the internal and external factors that precede the internationalization process, the decisions about the international marketing strategy adopted during this process (standardization or adaptation), and the result of internationalization, understood as the performance of the franchise in the global market (number of countries where it operates, number of units franchised abroad, and years of internationalization).

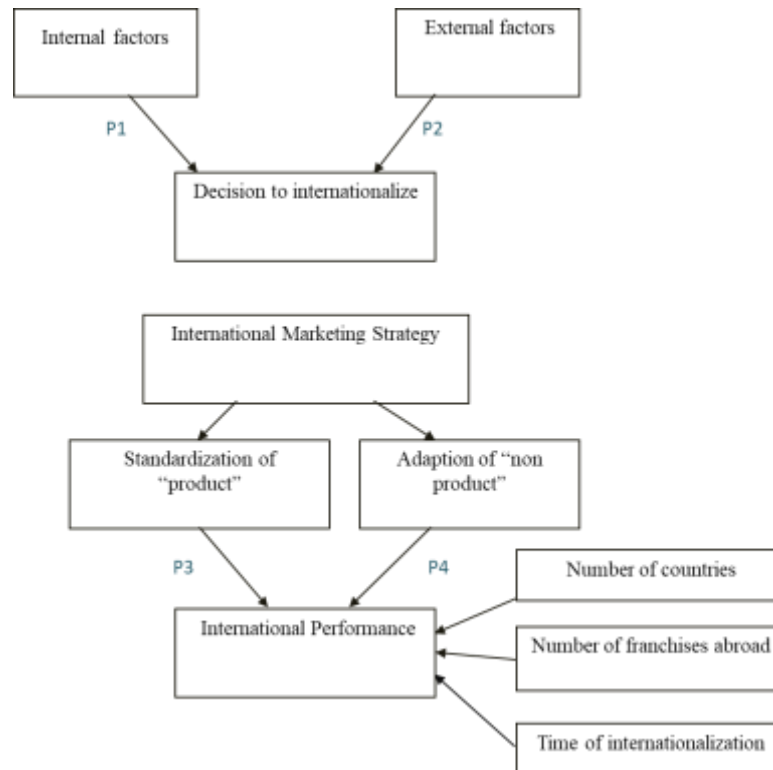


Figure 1 - Conceptual Model

Source: the authors, based on Deng (2012), Douglas and Craig (2011), Cavusgil et al. (2014), and Rocha and Silva (2011).

From Deng's (2012) model, which shows the antecedents, the factors that precede the internationalization decision were classified as internal factors (relative to the internal capacity of the company) and external factors (relative to the industry context).

In Figure 1, the following internal factors were used: the size of the company; resources and capacities for internationalization; the structure of the business network abroad; the intensity of exports; the type of orientation and international experience of the company; the international experience of managers; strong personal relationships between senior executives and foreign markets; the quest to strengthen the company's image as multinational; and the pursuit of increased sales and profits. The external factors include: the saturation level of the domestic market; the overall industry context (size of competition, size of the target market, growth); the manner in

which international negotiations are conducted by the country; the institutional context of the external market; and the socio-cultural characteristics of the external market.

Thus, this study presents the following propositions:

**P1.** Internal factors influence the decision to internationalize for Brazilian franchises.

**P2.** External factors influence the decision to internationalize for Brazilian franchises.

Another category reflected in the model of Figure 1 is the international marketing strategy adopted by the company, that is, if it adapts elements of the marketing compound (product, price, communication, sales promotion, distribution) to the reality of each country destination, or if those elements are kept standardized based on the country of origin of the franchise. Through research on this point, we sought to understand if the international marketing strategy adopted (standardization, adaptation, or balance between the two) influences international performance (Rocha & Silva, 2011). Thus, the following propositions were drawn:

**P3.** A greater degree of standardization of items related to “product” (product, communication, and brand) can lead to greater international performance.

**P4.** A greater degree of adaptation of items related to “non-product” (price, distribution) can lead to greater international performance.

The conceptual model presented will be tested in the empirical part of this article.

## **4 Method**

Empirical research was based on an exploratory qualitative approach - a multiple case study. The case study method (single or multiple) focuses on a specific phenomenon in time and space, considering a context delineated by variables to be investigated (Lee, 1989; Johansson, 2003). In the area of international management it is appropriate to opt for this type of approach because it deals with complex phenomena, with many variables that are difficult to recognize with

quantitative approaches (Yin, 1989, Yin 2013, Carneiro & Dib, 2007). As complex processes characterize the theme of internationalization of franchises, the qualitative approach facilitates rich interpretations for the phenomenon.

As a corpus of research, we selected three large Brazilian franchise networks in the clothing sector that have been active in the international arena for more than 12 years, indicating the acquisition of knowledge and experience in this type of operation. The choice of companies in the same industry was aimed at facilitating the comparison of field survey data. The clothing sector was selected as one of the most competitive of Brazilian franchises, corresponding to about 12% of the internationalized brands (ABF, 2017). Information was collected on the history of participating franchise networks to help clarify the influence of internationalization history in each case.

The instrument for the field research was the in-depth interview. Interviews are useful for the researcher to access information from the interviewees, including historical ones that can not be directly observed or investigated through questionnaires (Godoi, 2006). The interviews followed a semi-structured script, with two thematic blocks created based on the theory and related to the objectives of this work. Thematic blocks were discussed and validated with three area scholars.

The interviews took, on average, 43 minutes. Four executives with high involvement in the internationalization process were interviewed. The interviews were recorded and then transcribed. The analysis of content was based on the exploration, description, and interpretation of the characteristics of the text (semantic content of the messages) to obtain indicators that allowed the categorization of the messages, according to the steps proposed by Bardin (2007).

In the following section the results of the investigation are exposed and analyzed.

## **5 Analysis of results**

This section presents three case studies developed with networks of Brazilian franchises in the Apparel sector.

## 5.1 Company A

Company A was created in 1966 with the intention of becoming a foundational retailer of intimate fashion in Brazil. In 2005, the company adopted a franchise model and also started the process of internationalization through export. In 2015, the company counted on 138 franchised retail operations in the national territory and was established in 3 foreign countries with 5 franchised units. In this last decade, it has undergone a major evolution, due to investments and application of innovative techniques of production and product development, making its products more fashionable to meet the new requirements of the intimate fashion industry.

The interviews were carried out with two professionals from key areas in the internationalization process, who hold the positions of Sales Manager and Export Assistant, named Interviewed 1 (E1) and Interviewed 2 (E2).

### 5.1.1 Background to internationalization

In the opinion of the two interviewees, the critical antecedents of the internationalization process were both internal to the company (resources and capacities) and external to the company (competition in industry, intensity of exports, personal relationships of founders in foreign markets, good acceptance of products outside Brazil). According to E1, as Company A is “one of the leaders in the domestic market, we have experience and know-how about what is needed to act properly in this industry.”

Respondent E1 stressed the importance of financial resources to make the international venture viable: “Internationalization has required a lot of resources and capabilities from the company, in the sense that it is necessary to invest money to have people that develop the operational structure for international activities.” Such capabilities and resources are also essential to the brand-building effort in the minds of consumers in foreign markets.

With respect to competition in the industry, it was due to competition that Company A built a portfolio of high quality products, based on process and operations development that enabled the

delivery of higher quality and perceived value to consumers as compared to companies of the domestic market.

Besides these, other antecedents mentioned were the network of personal relationships with executives in foreign markets that facilitated the entrance in certain marketplaces, and the receptivity perceived from the external market for the Brazilian products: “Many companies of lingerie exported at that time, and we did not want to fall behind them.” “Company A began its activities in the international market by exporting products.” “This mode of entry was decisive for the fact that it did not require significant initial investments.”

Regarding the difficulties faced by Company A in the process, the interviewees stated that the company needs to invest significant time and effort in selecting partners committed to building the brand in the long term, avoiding the loss of time, resources, and opportunities for both parties. In the words of the interviewee E1: “The commitment required to build a brand in the minds of consumers is quite high, and as much as this topic is mentioned at the beginning of the activities and negotiations, maintaining the commitment to a high degree for a long period of time has been shown to be very, very hard indeed.” It is important to align expectations with regard to the payback period of the investment made for the contract. A short-sighted and short-term view may increase the conflict between franchisor and franchisee.

Interviewee E1 suggested a training program to make franchisees aware of how to properly invest in brand building. Another important factor is training franchisees in terms of technical, operational, and market knowledge, including branding and marketing. For E1: “Training is a key factor in this issue and the company has sought to work with educational initiatives to enable and provide the necessary and expected support from partners. However, even with our willingness and focus to make it all go well, it is very difficult to find partners who want to engage in these activities for a longer timeframe than the short term.”

These notes provide important insights and recommendations for managers who are thinking of internationalizing their operations. The internal factors (operating capacity and resources) were pointed out as essential factors for those interested in investing abroad. The strong relationship with the market of interest and knowledge about the market’s interest in the product that will be offered were the external factors pointed out by the interviewees.

### 5.1.2 International Marketing Strategy

Company A seeks to use a standardized marketing strategy abroad, but has had to make adaptations in its products, as the female body varies considerably from country to country, and this difference in body measurements generates the need for product adaptation. Adaptations in other marketing strategies have not been realized, but according to respondent E2, they should be formulated especially for each target market: “(...) this requires more effort from us to understand particularities of foreign local markets. As much as we have enough knowledge and know-how about the Brazilian lingerie market, each market has unique characteristics.”

However, the strategic decisions are made in Brazil by the Brazilian team, with centralization and a high degree of control of how the marketing tactics would be executed. This does not always attend to the specific needs of various markets. The franchisees may participate in the formulation of the strategies in a limited way by providing information. Ultimately, the Brazilian team makes the decisions, and each country takes care of the execution of the marketing actions.

According to E2, the support they receive from the marketing department for international expansion is limited to the communication strategy, which uses Gisele Bündchen as a global advertising model. This has somewhat facilitated brand recognition in other markets.

Regarding price, Company A faces difficulty in positioning itself at a premium price due to the resistance of some foreign franchisees. The lack of brand awareness requires that more competitive prices be used outside Brazil.

Company A seeks to act in a standardized way, but has found they need to adapt their products and prices to the local markets. In certain cases, there is even a reverse transfer of knowledge: “(...) work with product development and production line leaders is done in Brazil to share the knowledge acquired in international markets, with the aim of improving the products sold in Brazil,” said E2.

Likewise, each country requires a distribution strategy defined in terms of existing infrastructure and best practices carried out by other retailers in the same industry, always considering the knowledge of local partners.



Company A needs both to educate potential partners about the value of marketing techniques and tools, to learn from franchisees about local culture, and to build the best marketing strategy together with local partners.

## **5.2 Company B**

Company B was a pioneer in the area of clothing in the South of Brazil. In 1993, franchising began in the retail sector. Today, Company B has five brands in its portfolio, thousands of points of sale in Brazil, 11 production units, two distribution centers, and an administrative center in São Paulo. Altogether, there are 826 stores in Brazil and abroad, of which 79 are individual stores and 730 are franchises in Brazil. There are also 18,259 multi-brand sales outlets and 4 online stores. The beginning of international operations was in 1997 with the opening of a franchised store in Paraguay. Internationally, there are more than twenty years of international experience, and the company has 19 franchised stores in Uruguay, Paraguay, Venezuela, and Bolivia.

For this article, an interview was conducted with one of the main executives involved in the internationalization process, who occupies the position of International Market Manager.

### **5.2.1 Background to internationalization**

As a critical background to the internationalization process related to Company B, some factors were considered internal to the company (increase sales and profits) and some were external (market knowledge, competition, and competitiveness in the international environment). In the words of the interviewee, the economic-financial perspective is critical for the beginning of operations. Each international project must have a counterpoint to revenue and profitability: “For this we need to draw the market plans and receive a level of profitability acceptable to the company. The increase in sales and profits is allied to the minimization of risks, diversification of the brand, and the valorization of the brand capital.”

Aspects related to external factors were presented by the interviewee, such as the need for market knowledge, including competition and competitiveness in the international environment.

“Knowledge in the market is relevant and impactful, because this factor is what determines whether or not we will operate in that market. Understanding who the competitors are and determining economic and financial feasibility is critical to any international operation.”

Regarding the difficulties faced by Company B in the internationalization process, the interviewee mentioned the lack of knowledge of the brand in international markets and the difficulty of finding partners committed to the construction of the brand in the medium and long term. “The weight of the brand is important. Brand recognition is first needed for the potential partner to decide to invest in this business and then it becomes necessary for the brand to be known in the international market so that business results begin to emerge. The weight of the brand is quite important in retail. Finding partners who are aware of the risks and committed to the long-term operation is no easy task.”

This note generates an important recommendation to those interested in internationalizing, as there is a difficulty in finding partners to guarantee the operation abroad of a brand considered unknown in that market. Thus, establishing long-term brand-building campaigns prior to the internationalization of the operation can be critical to the success of the business.

### **5.2.2 International Marketing Strategy**

Abroad, Company B seeks to standardize its marketing materials to minimize the costs of product adaptation. According to the interviewee, the critical aspect for marketing in the internationalization of franchises is the construction of a brand positioning in the destination country without detracting from the value of the brand in the country of origin. The company has the strategy to apply the same brand marketing in Brazil, making the necessary adaptations to the local reality of the market and the consumers. The company has standardized brand marketing and adapts the content of communication in a way that is appropriate for the international market: “We adapt what we understand from the target audience in each foreign market in which we seek to operate and with this knowledge we can evaluate the potential of that demand. We then have a unique position on a single value proposition. However, we can adapt to the minimum necessary for that market to recognize and value our proposition and our brand.”

The marketing team has the role of understanding the consumer and the market in which they plan or want to act, giving support so that all communication is adjusted according to the local reality. As for the marketing strategy, the interviewee understands that it is global and local at the same time. Company B formulates a global marketing strategy for the franchise network - including, for example, shop window planning - but there are occasional adaptations to local cultural issues.

Marketing actions are formulated and coordinated in Brazil and implemented locally in each country. According to the interviewee, the foreign partners participate in a significant way in its formulation. "Marketing actions are formulated with the help of the partners, they actively participate and decide together what are the best marketing actions for that moment in their markets. But everything is formulated in Brazil, with the help of partners, and coordinated by Brazil."

Regarding the adaptation or standardization of the products of the franchise network, Company B opts for standardization: "The area of brand internationalization works with the same products that we have offered here in Brazil." "There is no major discussion about the need to adapt our products to other markets." "There is a pricing policy for destination markets, formulated in Brazil and taking into account different realities in different markets." "So there are situations in which we consider questions of the productivity of that market, or issues related to the costs of the operation, taxes, always with decision-making based on Brazilian guidelines on the pricing strategy."

However, the communication and promotion strategies are adapted when external markets demand it, despite the fact that the same line is used in Brazil. Company B is able to adjust to different markets through adaptations that have been identified as necessary to facilitate sales. As for distribution, the company formulated strategies with different channels depending on the infrastructure available in each country. The interviewee pointed out the importance of having a distribution partner for the goods, which can greatly facilitate operations in the country of destination. Having a distributor allows and enables business in cases in which company B could not distribute without this partnership.

Although the actions are reportedly carried out jointly, Company B presents strategic decisions for its actions of marketing abroad that are similar to the ones used in Brazil. The

company works with the same product and uses the same brand positioning and the same pricing. Only the form of distribution was differentiated through using a different sales channel. Therefore, it presents a global marketing strategy.

### **5.3 Company C**

Acting as a franchise since 1986, Company C now has two brands of jeanswear, one for young adults and another for children. The company has contracted the Brazilian model Gisele Bündchen as a brand image and has a diversified portfolio of products including clothing, accessories, and shoes. In Brazil, the company has 130 exclusive stores and is present in 200 multi-brand stores. The process of internationalization began in 2005. Company C is present in 31 countries, in 1,650 multi-brand stores, and with 9 international franchises. As a brand that aims to establish itself as a reference to young audiences, it has grown significantly thanks to the communication and marketing campaigns using social networks and digital media.

The interview was held with the Franchise Expansion Executive who was the executive responsible for the internationalization area six years ago.

#### **5.3.1 Background of Internationalization**

As critical antecedents of the internationalization process related to Company C, some were considered internal to the company (company size, image strengthening) and some were external (not known in the international market). According to the interviewee, firms in the jeanswear sector need a more robust structure to deal with the difficulties of the internationalization process: “When we are dealing with growth abroad we must have a reasonable size (ample number of employees and resources) to start the activities. If we compare the size needed to grow in Brazil and the size needed to grow abroad, companies need a bigger structure to be successful overseas.” The executive also mentions the company’s lack of knowledge of the target market as a drawback.

As for the other critical internal factor, the company’s image is strong. The interviewee says that the brand traditionally invests in advertising and publicity, and that it has benefited from the

global image of its advertising model, Gisele Bündchen. In addition, the brand name is not Brazilian, which helps to give it an international connotation: “The company had the opportunity to have its brand more easily recognized through associations with the image of the model. The brand has an international connotation; the brand name itself comes from Italy. The image of the brand and the history helped in the process of internationalization.” No external factors were mentioned as a critical antecedent to the internationalization process.

As for the difficulties faced by Company C in the process, the interviewee mentioned the need to find creative solutions to the pricing strategies in order to operate in markets with more competitive prices than the average prices practiced in Brazil. Bureaucratic issues have also proved to be barriers to entry, requiring people directly involved in the bureaucratic activities of international operations, such as brand registration, to be well trained.

This case indicates to those interested in internationalizing that the size of the company, that is, the number of employees and the structure dedicated to the goal of internationalization, as well as the use of a spokesperson with a global image can help in the construction and strengthening of the brand abroad.

### **5.3.2 International Marketing Strategy**

Company C seeks to act with a standardized marketing compound abroad and the most critical marketing aspect in the international scope considered was to position the brand, since it was unknown outside of Brazil. In addition, the company needed to know the characteristics of foreign markets to develop products and marketing strategies appropriate to the behavior of new potential customers.

According to the interviewee, the marketing team played a fundamental role in the internationalization process, specifically for generating knowledge about the target markets to allow the company to offer adequate solutions to the psychological profile of the new target audiences: “You need to think different for different markets, consumers, fashions, and cultures. The perception of what the product represents is different and requires specialized marketing professionals.”

Company C seeks to maintain a brand position similar to that used in Brazil, since it has been successful. However, punctual adaptations are necessary for cultural reasons. The marketing team in Brazil is responsible for formulating strategies and coordinating marketing actions. But each partner participates in formulating the strategies and executes the necessary actions in its local market: “We think globally, we outline the strategy in Brazil with partners, and delegate for local execution. Partners participate through presenting information about their markets and potential opportunities (...) The company addresses international business through local culture. In every market there is a solution. But everything is formulated here; the brand is from Brazil.”

Regarding the standardization of the products of the franchise network, the interviewee said that adaptations in products are necessary, because: “(...) our design was developed in the model of the Brazilian female body. But we had to design and develop adaptations for North Americans and Europeans. Each country has its peculiarities.”

As for the pricing strategy of the products, where they found more competitive prices, which functioned as a barrier to entry, they had to initially use a pricing strategy for market penetration. Once the brand became known, the price could be adjusted. In the words of the interviewee: “Until the main partner realized the value of our products, we invested in a price adjustment, a market penetration pricing strategy.”

The communication strategy is tailored to each market and its target audience with specific characteristics. Company C developed new communication materials so that each market had its cultural issues respected in communication actions. The interviewee stated that the company does not work with sales promotions abroad in the same way they do in Brazil. If there are communication actions, they come from the partner in the local market.

As far as distribution is concerned, the company only delivers the products in a plant in the destination country and a local partner manages all the logistics so that the products reach their final destination: “They are different distribution channels. We just deliver the parts and the local partners manage all the logistics. The only channel that is the same is the internet, the website. Except for the website, everything is different, because we do not take care of this activity. Here in Brazil we take care of [the distribution], we pay more attention to this.”

Despite the search for standardization in its brand, positioning, communication and product, Company C makes several adaptations in its products, price (at the beginning of the internationalization), in the form of distribution, and in the pieces of communication. This, in the medium term, hampers growth in other countries, since it does not allow a gain in scale.

One important insight that can serve as a recommendation for internationalization is the use of price strategy based on market penetration early in the construction of the brand abroad.

#### **5.4 Comparative analysis of cases**

With regard to the background of the internationalization process, the internal factors dimension to the company was highlighted in companies A, B and C. Therefore, Proposition P1 “Internal factors influence the decision to internationalize for Brazilian franchises” was supported by the data.

Regarding external factors, companies A and B mentioned factors such as competitiveness in industry, competition, the intensity of exports, and the acceptance of products abroad. And Company C mentioned the ignorance of the market as even an impediment. Therefore, the P2 Proposal that “External factors influence the decision to internationalize for Brazilian franchises” has also been supported. In future studies, a quantitative study could be used to verify which of these has more relevance.

The variety of factors pointed out reinforces that the international franchising phenomenon is characterized by many singularities, making it difficult to formulate a single conception; reasons for internationalization are multiple, complex, and specific to each company (Hutchinson et al., 2007; Merrilees, 2014).

Table 1 summarizes the main findings with respect to the background and recommendations.

**Table 1 – Antecedents and recommendations**

	Company A	Company B	Company C
<b>Internationalization processes antecedents</b>			
<b>Internal Factors</b>	Resources and capacities (financial, managerial, marketing)	Knowledge on international market	Size of the company
	Relationship networks abroad	Search for increased sales and profitability	Strong brand image
<b>External Factors</b>	High level of competitiveness in industries		
	Exportation Intensity		
	Receptivity to products abroad		
<b>Challenges/Recommendation</b>			
<b>Internal Factors</b>	Time and efforts in selecting partners	Unknown brand abroad	International team training
	Provide the necessary and expected support for franchisees	Build the brand in the target market	Develop pricing strategies for market penetration
	Training of franchisees		
<b>External Factors</b>	Finding partners committed to long-term and risk-aware	Align long-term expectations with franchisees	More competitive markets in price
	Finding partners committed		Bureaucracy

Source: the authors

In all three cases, the difficulty in selecting franchisees committed to the construction of the brand in the long term, and aware of the inherent risks of international contracts was mentioned. The three Brazilian franchises, however successful and well-known in the country of origin, suffered from the lack of knowledge of their brands outside Brazil.

A short-term view hinders the investment of resources for brand building, and can increase friction and conflict between the parties. Such difficulties pose a problem for franchise networks which envisage expansion outside the country of origin. They need to develop skills to identify appropriate partners and minimize potential opportunistic behaviors (Elango, 2007).

Companies A and C mentioned the need to provide training and education to franchisees as a way to optimally develop marketing activities and coordinate efforts in different markets.

From the point of view of the international marketing strategies summarized in Table 2, the cases revealed the fundamental role of marketing teams in building the brand image in destination



countries through communication and support for the acquisition of knowledge of different markets, consumers, and cultures. Another point of convergence was the definition of marketing strategy and central positioning in Brazil, but with adjustments made to the different markets based on information and requests from foreign franchisees. The coordination of marketing actions is also centralized in terms of strategy definition, although in some cases, decentralized in local execution.

**Table 2 – International Marketing Strategies**

	Company A	Company B	Company C
<b>International Marketing</b>			
<b>Marketing Role</b>	Make the brand known	Building position and make the brand known	Make the brand known
	Maintaining the essence of the brand	Maintaining the essence of the brand in the country of origin	Understand different markets, consumers, fashions and cultures to develop appropriate strategies
	Analyze acceptance of the product in the target market and need for adaptations	Understand customers and the market	
<b>Positioning</b>	The company seeks to maintain the same positioning	Same positioning, but with necessary adaptations	Positioning similar as in Brazil
	Developed in Brazil with participation of foreign franchisees	Developed in Brazil with occasional adaptations due to cultural differences	Developed in Brazil with participation of foreign franchisees
<b>Marketing Strategy</b>	Coordination of actions in Brazil	Coordination in Brazil with participation of local franchisees	Coordination in Brazil with participation of local franchisees
	Few marketing actions carried out for international markets		
<b>Product</b>	Adapted to target markets	Standard Products	Products adapted to consumers from other countries
	Transfer of improvements to the market of origin		
<b>Price</b>	Prices adapted due to lack of knowledge of the brand	Prices adapted to differences in destination markets	Prices adapted due to lack of knowledge of the brand
	Seeking to maintain price standardization	Pricing policy formulated in Brazil	
<b>Communication</b>	Same strategy used in Brazil to maintain the essence of the brand	Communication strategy tailored to each location	Communication adapted to cultural issues
<b>Sales Promotion</b>	Adaptions needed due to distance and logistics	Adapted in some cases and standardized in others	No promotions planned for other countries
	Make prior planning		
<b>Distribution</b>	Adapted to each country	Adapted to different channels for each country	Local distribution depends on local partners
	Depending on local franchisees	Local distributors	Adapted to each local

Source: the authors

Regarding the elements of the marketing compound, what was observed in the case study was a tendency to adapt the “non-product” factors (price, distribution, and sales promotion) and standardization of the “product” factors. Companies A and C, despite seeking standardization of products, did not always succeed because of the specificities of consumers from different countries. They end up having to adapt their products in some aspects (measurements of lingerie in the case of company A and modeling in the case of jeans of Company C). Figure 2 shows the international marketing strategies practiced in the cases studied.

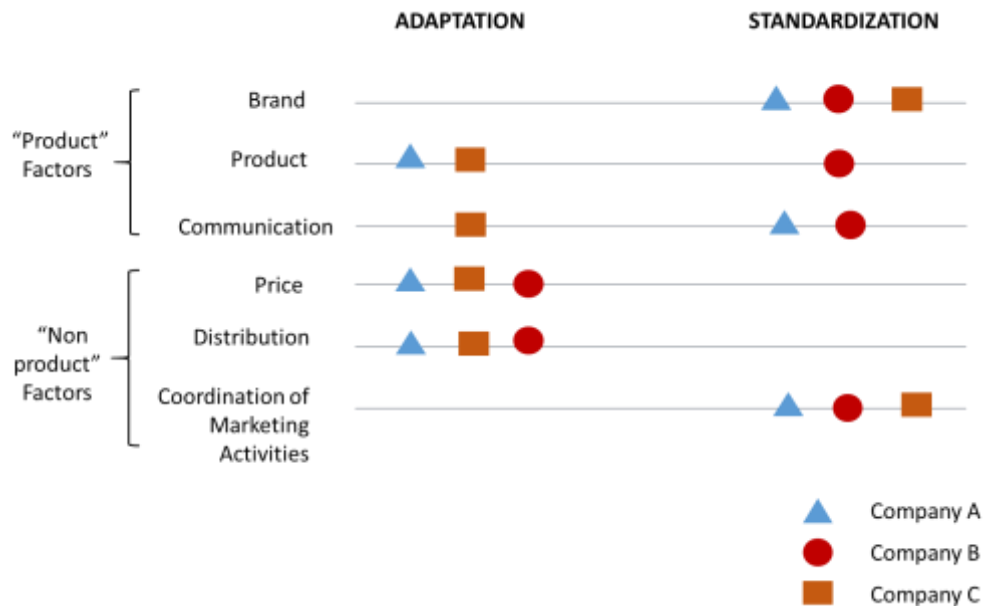


Figure 2 - Degrees of Standardization and Adaptation of the Marketing Composite  
Source: the authors

The three companies have very different degrees of internationalization. Company A has 12 years of international experience and five franchised units in three countries. Company B has 20 years of experience and 19 franchised units in four countries. Company C, with 12 years of experience in internationalization, is present in 31 countries (although it mixes export and franchising) and has nine franchised units outside Brazil.

Company A showed lower franchise opening speeds and lower coverage than the other companies surveyed, while B and C presented similar rates of franchise opening in relation to internationalization time. However, Company C has shown much more coverage in a number of countries than the others.

As the three franchises follow similar strategies of international marketing (Figure 2), but present different performance in internationalization, it was not possible to confirm the propositions P3 (“The greater degree of standardization of items related to “product” can lead to a greater international performance”) and P4 (“The greater degree of adaptation of items related to “non-product” can lead to greater international performance”).

## 6 Discussion of results

In addition to the findings of previous studies, the critical antecedents of the internationalization process mentioned in the cases were aspects internal to the company, such as resources and capabilities (Eroglu, 1992), knowledge about the international market (Ghauri & Cateora, 2010), sales and profits (Craig & Douglas, 2001), and strengthening brand image (Keegan, 2005; Merrilees & Frazer, 2013).

The present study revealed that critical antecedents related to economic motivations, such as financial resources, know-how, and experience (Wiedersheim-Paul et al., 1978; Hutchinson et al., 2007), mix with behavioral motivations such as personal relationships (Hutchinson et al., 2007), knowledge of the target markets, and the quest to strengthen the company’s image (Eroglu, 1992; Welch, 1990). Behavioral factors, such as the global and entrepreneurial vision of decision makers, are as important as economic and financial factors as drivers of the process. The franchisor, with the financial and administrative resources, expertise and experience, is able to transmit to potential franchisees greater security and a work system based on a brand that is supportive and minimizes risks.

The brand as an internal feature was not mentioned by Deng (2012) for Chinese franchises, but it was an important aspect for Brazilian franchises. The brand was heralded as an asset, requiring commitment from the company and the franchisees to become known without detracting

from its original positioning. This difficulty is typical of companies from emerging markets, which need to make extra and long-term efforts to build the image of their brands in the foreign market, as these are often unknown (Pitt et al., 2003; Ghauri & Cateora, 2010).

Finding partners who are aware of the risks and committed to building brand image in new markets - something that only happens in the long run - is not easy, but it is crucial. In the specialized literature on franchising, a good selection of partners for international contracting is an important factor. However, the long-term need for commitment to brand building outside the country of origin is less emphasized.

It is important to emphasize the importance of brand management in the internationalization of Brazilian franchise networks in order to maintain a consistent brand image in foreign markets (Keegan, 2005), but without losing sight of local characteristics and needs (Douglas & Craig, 2011; Oliveira & Crescitelli, 2008). The initial theoretical model was reformulated (Figure 3), including this factor separately from the traditional strategies of standardization and adaptation of the marketing compound. For the franchises, a strong brand is fundamental for the construction of the business abroad, and the concern with the management of the brand abroad is recurrent in the interviews with Brazilian managers, as concluded by Camargo, Rocha and Silva (2016).

The task of the international marketing strategy is to arrive at a global brand positioning, according to which the product is positioned similarly in the minds of buyers worldwide (Cavusgil et al., 2014). Therefore, the company's international marketing department has the mission of evaluating the possibility of globally using the same visual language of the brand in the domestic market, or making the necessary adjustments to the reality of each location without losing the essence of the brand.

This study made clear that companies perceive the need to counterbalance the standardization and adaptation of marketing mix components, following a semiglobal marketing strategy (Douglas & Craig, 2011). It is a matter of balance - between reducing costs, increasing planning and control, building global brands, meeting local requirements, and responding to consumer demands and thus increasing revenues (Cavusgil et al., 2014). However, an excess of adaptation can bring very high costs and prevent the company from developing global brands, or

semiglobals - something that Brazilian franchises should be aware of in their internationalization process.

In terms of performance in the foreign market, one of the differences found among the three franchises was the entry - export mode combined with franchise, or only standard franchise. Companies A and C blend a low commitment (export) mode of entry with a high commitment (franchise), but Company C has a presence in many more countries. One possible explanation for this would be the difficulty reported by Company A respondents to find appropriate partners and provide them with support and training. Company C reports that it has benefited from the image of the brand built with the help of an advertising model with global reach, and the financial strength of the company. Finally, Company B, whose international experience is 20 years, is only internationalized through franchising, that is, it seeks more committed partners.

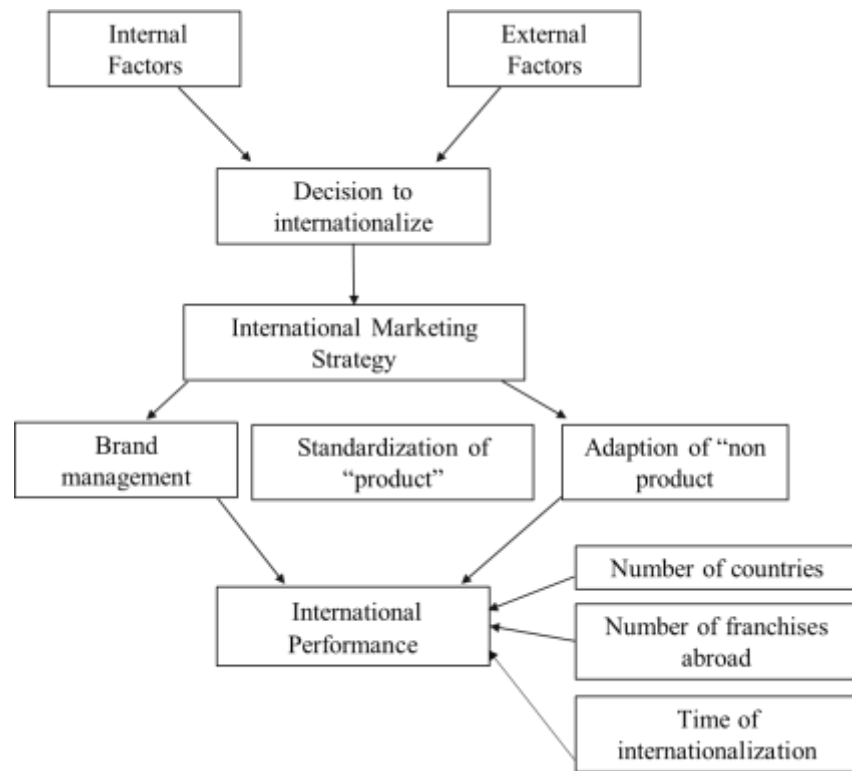


Figure 3 – Final conceptual model

Source: authors (2018) based on the cases and Deng (2012), Douglas and Craig (2011), Cavusgil et al. (2014), e Rocha and Silva (2011).

## 5 Conclusions

The process of internationalization of the franchises surveyed was incremental. The mode of entry was not necessarily through the franchise system; in some cases, the franchises opted for export, confirming the theory that the internationalization of firms is often a gradual and experimental process (Johansen & Valhne, 1977, 2009). In the cases studied, the evolution to the franchise model in the international scenario did not necessarily imply changes in the marketing strategy. These franchises still rely heavily on an export model, with only a few specific adaptations in products, prices, and communication suggested by local partners or demanded by the habits and characteristics of consumers in each country, as in the case of models of jeans and modified bras. The decisions about the marketing composite remain fairly centralized in the matrix, as companies understand that this concentration implies more efficiency and control, as predicted in the literature (Birkinshaw & Morrison, 1995; Yip, 1995). Adapting marketing mix elements, considering cultural and economic differences, serves primarily to achieve greater product acceptance by customers (Douglas & Craig, 1989; Zou & Cavusgil, 2002).

Thus, companies demonstrate an ethnocentric vision (product development determined mainly by the needs of the customers of the home country, with few adaptations to the countries of destination) mixed with a polycentric orientation that takes into account local cultural differences (Keegan, 2005). Results show that some elements of the marketing strategy, such as products and communication, are more standardized than others, such as distribution and price. Such findings can be verified in future studies.

With respect to the background proposed by Deng (2012) in his model for Chinese franchises, this study revealed many more internal factors than external ones, probably due to differences between the institutional environments of China and Brazil regarding the governmental incentive for exports. In the case of Brazilian franchises, the incentive for internationalization was based more on the top management of the company than on incentives from the external environment, even though the Brazilian domestic market is still quite attractive. The Deng model (2012) does not include in the internal antecedents the brand as an asset that can help in the process of internationalization - something that the Brazilian respondents emphasized. Thus, the theoretical

model proposed in Figure 3 includes brand management as a factor to be investigated in future studies on the internationalization of franchises, as also proposed by Merilees (2014).

A managerial recommendation inspired by the findings of the study is the careful selection of partners in the target markets committed to a long-term job of building and managing the brand image and awareness of the risks and the time required to do so. Providing training and support to franchisees is also critical. This is similar for the support of the international marketing team in terms of knowledge of the needs and characteristics of consumers and local markets to strengthen the image of the brand abroad and, at the same time, maintain a position consistent with that of the country of origin, pointing out the need to plan the standardization or adaptation of the marketing mix. The construction of a strong brand identity in foreign markets was highlighted as an important challenge for these companies, as they are not always well known, as pointed out by previous studies on internationalized Brazilian franchises (Rocha et al., 2016 and Khauaja, 2012).

The internationalization process must be strategically approached based on market analysis, demand, product acceptance, and the need for adaptations. We also recommend a brand development plan abroad to exploit competitive advantages and growth opportunities, rather than reliance on the gradual increase of overseas experience or actions taken at random. Another management recommendation is to assemble and train the teams directly involved with the bureaucratic and marketing activities related to the international business management process.

Multiple case studies focus on specific phenomena in time and space, in a context in which the variables of interest occur naturally, thus serving to construct theories (Yin, 1989). In this way, the present study contributes to the deepening of the knowledge about the internationalization of franchises. However, one of the inherent limitations of the case study method is the low generalization of the findings to other units of analysis or contexts.

Another limitation of this study is the limited number of franchisees and respondents. Though, their commitment and cooperation and their responses cover all the content planned for this research study. Considering that internationalized Brazilian franchises are not numerous, the findings shed light on several facets of the phenomenon that can be deepened in future studies.

As a result of the present study, qualitative investigations are recommended to examine internationalized Brazilian franchises from other sectors to compare the results obtained. Another

suggestion is to carry out a quantitative study based on the theoretical model proposed to measure the effect of its elements in the internationalization process.

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