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IDENTIFYING STRATEGIC GROUPS: AN ASSESSMENT IN MEXICAN FRANCHISES

ABSTRACT

The formation of strategic groups in the franchising sector has been previously documented in the context of different countries. Our proposal is the franchise industry in Mexico should be formed by groups of differentiated franchisors. The identification and analysis of different strategic groups formed in the franchise system of the Mexican market is the objective of this research. Our evaluation was performed using the factor analysis technique in a sample of 167 franchises of national origin. Seven strategic dimensions supported by the theory of scarce resources and agency theory make up the existence of differentiated groups of franchisors in the Mexican market. Our research confirmed the identification of five strategic groups called: rapid growth, converters, experienced and international franchisors, high entry fees and expensive conservatives, which use differentiated strategies to compete in the Mexican market.

Keywords: Strategic groups, Mexican franchises, Factor analysis.

A IDENTIFICAÇÃO DE GRUPOS ESTRATÉGICOS: UMA AVALIAÇÃO REALIZADA EM FRANQUIAS MEXICANAS

RESUMO

A formação de grupos estratégicos no setor de franquias foi documentada anteriormente no contexto de diferentes países. A nossa abordagem aponta que a indústria de franquia no México deve ser formada por grupos de diferentes franqueadores. A identificação e análise dos diferentes grupos estratégicos formados no sistema de franquia no mercado mexicano é o objetivo desta pesquisa. A nossa avaliação foi realizada utilizando a técnica de análise fatorial em uma amostra de 167 franquias de origem nacional mexicana. Sete dimensões estratégicas apoiam as teorias de recursos escassos e da agência e configuram a existência de diferentes grupos de franqueadores no mercado mexicano. Nossa pesquisa confirmou a identificação de cinco chamados grupos estratégicos: crescimento rápido, convertido, franqueadores experientes e internacionais, alta taxa de entrada e conservadores caros, que usam diferentes estratégias para competir no mercado mexicano.

Palavras chave: grupos estratégicos, franquia mexicana, análise fatorial.

LA IDENTIFICACIÓN DE LOS GRUPOS ESTRATÉGICOS: UNA EVALUACIÓN EN LAS FRANQUICIAS MEXICANAS

RESUMEN

La formación de grupos estratégicos en el sector de franquicias ha sido previamente documentada en el contexto de diferentes países. Nuestro planteamiento es que la industria de franquicias en México debería estar formado por grupos de franquiciadores diferenciados. La identificación y análisis de los diferentes grupos estratégicos formados en el sistema de franquicias del mercado mexicano es el objetivo de esta investigación. Nuestra evaluación se realizó mediante la técnica de análisis factorial en una muestra de 167 franquicias de origen nacional. Siete dimensiones estratégicas soportadas en la teoría de los escasos recursos y teoría de la agencia configuran la existencia de grupos diferenciados de franquiciadores en el mercado mexicano. Nuestra investigación confirmo la identificación de cinco grupos estratégicos llamados: rápido crecimiento, convertidos, franquiciadores experimentados e internacionales, alta cuota de entrada y conservadores caros, que utilizan estrategias diferenciadas para competir en el mercado mexicano.

Palabras clave: Grupos estratégicos, Franquicias mexicanas, Análisis factorial.

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1 INTRODUCTION

The increasingly common use of franchising as a way of business expansion reveals the importance of this format to the economies of the countries (Baena, 2010). Since this format favors the development of brands in which franchisors and franchisees offer goods and services in an increasingly competitive market, this merger under the same brand contributes to the formation of large networks and these networks allow a competitive advantage (Michael, 2003), mainly against the independent trade (López & Ventura, 2001).

Despite its importance, there is still little scientific research dedicated to understanding the complexity of the franchise system (Baena, 2010), as most of the literature aims at marketing and business implementation of this type of business (Díez & Rondán, 2004).

The franchise system in Mexico began in 1985 with the arrival of the American franchise McDonalds. In 2011, there were a total of 812 franchises in Mexico, classified in 75 categories, and the industry turnover of 85,000 million pesos a year, reporting an employment of 500,000 people. The 87% of the brands have domestic origin, which makes clear the high participation and importance of national franchises in the sector (Asociacion Mexicana de franquicias, 2012).

Michael (2014) pointed out the importance of franchising as a driver of economic development in Latin America, thus recognizing the importance for the national economy that has the franchise sector, it is necessary to understand its structure, and a way to understand its structure it is to identify segments within the sector (Marszk, 2012). By analyzing its structure we intended to show that companies belonging to the same strategic group and following similar strategies get different results than other companies belonging to another strategic group (Rodríguez et al., 2010). The search for strategic groups is valuable because it contributes to the empirical investigation of the franchise industry (Rondán, Navarro & Díez, 2007).

Previous studies on franchising, in the context of different countries, reveal the existence of strategic groups. We ask ourselves whether the strategic dimensions based mainly on the theory of agency and theory of the resource scarcity used in these studies could allow the identification of differentiated strategic groups in Mexico.

The aim of this work is to identify the existence of different types of franchisors of national origin from the perspective of strategic groups and to identify the variables that distinguish them.

The practical application of this work is to provide an additional line of knowledge of market behavior of franchises in Mexico to serve: entrepreneurs both franchisors and franchisees, to business organizations and government agencies involved in the operation and decision-making in this sector. Theoretically, this work contributes to understand the formation of strategic groups in franchising, evaluating a Latin American country. Carney and Gedajlovic (1991) and other authors have done their studies in developed countries.

To meet the objective of this work it is structured as follows. First, the evolution of this sector in Mexico. Then a theoretical explanation of strategic groups and a review of academic papers on strategic groups in the franchises. Then the franchise concept will be described and the theories of resource scarcity and agency, and the approach of the hypothesis. Finally, the description of the methodology and results of research.

The study used the methodology of factor analysis on a sample of 167 registered franchises in Entrepreneur magazine in 2012, which annually reports the data of franchises in Mexico.

2 THE EVOLUTION OF FRANCHISES IN MEXICO

The franchises in Mexico arise in the eighties. In 1990, the regulations of the law on the control and registration of technology transfer and the use and exploitation of patents and trademarks (RLRTT) was enacted, which led to the recognition of franchises in the Mexican law (Arce Gargollo, 2009). In this way, the franchise contract arose, which is the document that allowed the license use of the brand and technology transfer.

Under current legislation of industrial property law, the franchise agreement is a kind of trademark licensing contract, which forces the franchisor to provide expertise and technical assistance to the franchisee (Arce Gargollo, 2009). This legal certainty gave a strong impetus to the massive expansion of the sector, since it was able to establish a more solid foundation in terms of security and legal protection for both the franchisor to the franchisee (Feher, 2008), and thus gradually settled the legal basis for the model.

The integration of Mexico to the free trade agreement with the United States and Canada, why the foreign investment law, the law of electronic transfer and industrial property law was reformed, prompted the interest of Mexican entrepreneurs to invest in the franchises.

McDonalds arrives at Mexico in 1985. This American franchise introduced innovation, quality standards, product variety and a culture focused on customer service (Garcia, 2011). After the arrival of McDonalds, other major North American franchises such as Howard Johnson's, TGI Friday's, Kentucky Fried Chicken, among others, started from the year 1987, the expansion of franchises in Mexico.

In the late 80's came the first fully Mexican franchises like, the Fogoncito, Hawaiian Paradise, Helados Bing and Electronica Steren followed it, which allowed boosting the sector's growth (Feher, 2008).

Another key factor to achieve this expansion was the creation in 1989 of the Asociación Mexicana de Franquicias whose role is to spread the culture of franchises nationwide, professionalize the sector, interact with government authorities, and supports Mexican companies in expanding the franchise format at national and international levels.

For May, Aquilera, Loy (2011), franchises in Mexico followed three distinct developmental stages described as follows:

a) Business Income Format.

This began with prestigious brands of chains of foreign origin, specifically the United States. The process begins with the import of franchises and later the development of Mexican franchises.

The sector presented a process of sustained growth, reaching its boom in 1993 and 1994, but the lack of regulations, financial support for small and medium enterprises, and especially the lack of experience, slowed the process until it was time to reverse it (Pérez, 2000).

b) Development of the format.

Once they know the format and have obtained some experience, Mexican entrepreneurs create the conditions to enable them to expand in country achieving greater market share. At this stage, the peso devaluation forced many companies to develop national providers due to the high costs of inputs from abroad, in addition to developing new marketing strategies to hold in the market. The experience and knowledge gained at this stage, allowed mature franchises with solid business principles to drive sustained growth into the twenty-first century (Pérez, 2000).

Table 1 -The different stages of franchises in Mexico.

Stage	Notable Facts	Growth Franchises By stage		Mexican Franchises	
				Year	Percentage
1985-1994	Import format	1985	1	1985	0%
	Formation of the Mexican	1994	300	1994	40%
	Franchise Association	Years by stage	9		
	Legal Security	New entrants/ year	16.7		
1995-2003	Slowdown and further	1996	300	1996	50%
	development of the format.	2002	350	2003	64%
	Signing of NAFTA with	Years by stage	7		
	Canada & United States	New entrants/ year	8.3		
2004-2007	Consolidation	2004	400	2007	70%
		2007	550		
		Years by stage	3		
		New entrants / year	50		
2008- 2012	Maturity sector	2008	750	2012	86%
	Support through the PNF	2012	1300		
	2008 Financial Crisis	Years by stage	5		
	Certification Process	New entrants/ year	110		

Source: the author

c) Export Franchise.

Once the format was learned and mastered the format, Mexican businessmen took the decision to risk and grow, not only internally, but crossing borders into other countries.

Moreover, the Ministry of Economy and the Mexican Franchise Association implemented in March, 2007, the National Franchise Program (NFP) to support the sector through financing. The plan included lending to entrepreneurs interested in acquiring a franchise known as transfer model. These resources were destined to the initial investment to start a franchise (Sanchez & Alba, 2010). The NFP was instrumental in boosting market growth and cushions the negative impact of the crisis of 2009. For 2008, the sector billed 30,000 million pesos which represent 6% of gross domestic product (Alba, 2010).

May et al. (2011) points out that to understand the reality of franchises in Mexico, it is necessary to analyze four stages. Table 1 shows the most significant events that characterized each stage to reflect the evolution of the sector in Mexico.

3 THEORY OF STRATEGIC GROUPS

3.1 The strategic Group

The strategic group concept was introduced by Hunt (1972), later its study has evolved mainly from the perspective of the Industrial Organization. From this perspective, a set of companies with similar resources should follow common strategies (Porter, 1982).

A strategic group can be defined as a set of firms in an industry following the same or similar strategy along the strategic dimensions, where there are usually a small number of strategic groups which capture the essential differences between companies in the sector (Porter, 1982). Caves and Porter (1977) point out that entry barriers difficult the entry of competitors to industry, but barriers mobility or strategic dimensions define the groups, and hinder the movement from one company to another group, this is the absolute cost of moving from one group to another.

Strategic groups occur for several reasons: different strengths and weaknesses of the companies at the beginning of operations, different dates of entry into the business, different competition, etc. The fact is that, once formed, all the companies belonging to each group are similar in strategic and market share, but also are affected and respond to external events in the same way (Sastre Peláez, 2006).

Porter (1996) states that the competitive strategy is to perform a different set of activities to deliver a unique blend of value to the market and that the essence of the strategy is to perform these activities differently than rivals. For Más Ruiz (1995) analysis of these strategies are the purpose of the formation of strategic groups, and differences in the strategic position of competitors helps to understand the strategy dimension associated to the success of a competitor.

So that strategic groups have three important characteristics:

I. Each group consists of companies that follow similar strategies, based on size or resources, as appropriate.

II. The group companies are more like each other, than those that belong to different groups, i.e. internal homogeneity and external heterogeneity.

III. The group companies are likely to respond similarly to the opportunities and threats in the environment.

In identifying strategic groups the choice of variables to be used in the analysis is essential, to allow understanding the strategic behavior of the companies studied, reflecting its position (Flavian & Polo, 1999).

The strategy dimension cannot be changed in a short time; rather its main feature is that last longer and the mobility barriers are the ones that prevent the mobility of companies in a group to another. Franchising has its own barriers to mobility, such as: initial investment, duration of contract, vertical integration, experience, national and international geographical coverage, size, growth and others that are difficult to change in the short term (López & Ventura, 2001).

3.2 Research of Strategic Groups in the Franchise

Pioneer in studies of strategic groups in franchising is the work made by Carney and Gedajlovic (1991). Which from the perspective of the theory of resource scarcity and agency theory, identified five strategic groups using seven strategic dimensions and thirteen operational variables. The five types of franchisors identified are: fast growing, expensive and conservative, converted, mature and unsuccessful. Following this work, the analysis of strategic groups in the franchises has been replicated in several countries enriched their understanding.

Table 2 describes the contributions of different authors to the study of strategic groups in franchises.

4 THEORETICAL FOUNDATION OF THE FRANCHISE

4.1 Franchise Concept

The franchise system dates back to the nineteenth century when the company I.M. Singer, in 1850, granted franchises for the sale of sewing machines. But in reality franchises were recognized until the 1950's, when restaurants and hotels began to appear as clones throughout the United States (Raab & Matuski, 2002).

Table 2 - Studies on strategic groups in franchises

Study	Objetive	Dimensions	Sample / Methodoogy	Resulting Franchisees Groups
(Castrogiovanni, Bennett, & Combs, 1995)	Replicate Carney Gedajlovic(1991) study, applied in the context of US franchises .	-Size -Dispersion -Increase -Cost -Contractual Prevision - Vertical Integration -Timing	717 franchises of American origin, reported in Entrepreneur magazine Factor Analysis Technique	-Fast Growth -Converted -Mature -Unsuccessful -Expensive and Conservatives
(López &Ventura, 2001)	Identify groups operating in the Spanish Market franchises and define its basic characteristics.	-Organizational Variables. -Characteristics of the product. -Price of the product.	228 companies operating in Spain in 1996 reported in different directories of consultants. Factor Analysis Technique	-Emerging -Standardized. -Big internationals -Traditional -Unsatisfactory
(Inma and Debowski ,2006)	Empirically assess the heterogeneity in the Australian franchise system	-Size -Dispersion -Growth -Vertical Integration -Cost -Timing	Surveys 93 franchises from Australia. Cluster Analysis	-Beginners -Developing -Growth -Mature
(Rondán, Navarro & Diez, 2007)	Application of new variables to identify strategic groups	-Size -Dispersion -Growth -Cost -Contractual Prevision -Vertical Integration -Timing -Sector -Distribution Strategy	140 franchises in the Spanish market reported in entrepreneur magazine 2004 Factorial Analysis	-Expensive -Mature -Fast Growth -Converted
(Rodríguez,	The identification and	-Size	664 Spanish	-Mature

Rondán, Diéz, & Navarro, 2010)	analysis of the performance differences in strategic groups that might be in the Spanish franchise system.	-Geographic concentration/ internationalization -Growth -Cost Accession -Contract -Vertical Integration -Timing	franchise for 2005 Factorial Analysis	-Converted -Fast Growth -Expensive -Conservatives

Source: the author

Caves and Murphy (1976), defined as a franchise agreement for a definite or indefinite period in which the owner of a trademark guarantees other person or firm, the right to operate under the registered
trademark for the purpose of producing or distributing a product or service.

Thus, the franchisor, owner of the production technology and brand guarantees a local entrepreneur named franchisee, the use of technology and brand on a particular site, a franchisor in return receives compensation in the form of right of entry and royalties on sales (Michael, 2014). Where the franchisor and franchisee are legally independent but economically interdependent (Michael, 2003), since the franchisor depends on the franchisee to maximize their revenues in a specific geographic region; and the franchisee depends on the franchisor exploit the reputation of the franchise and to receive operational and business support (Grewal, Iyer, Javalgi, & Radulovic, 2011), and further both franchisors and franchisees take the franchise to successfully compete in an industry (Michael, 2014).

There are three basic elements that can be given to the phenomenon of the franchise: the brand or trade name, the uniformity of the product or service and the payment of fees or royalties the franchisee to the franchisor (Arce Gargollo, 2009).

Franchise systems adopt different strategies in their expansion processes: develop only through franchise or to adopt a mixed system consisting of owned and franchised units (Díez & Rondán, 2004). So the franchise with a hybrid organizational structure involves the coexistence of two forms organized in the same chain; the outlets that are under the hierarchy of the company and outlets franchised near the market.

There are two broader theoretical approaches to explain the development of the franchise chain; the agency theory and the theory of scarce resources. Both theories should be analyzed, as they determine the characteristics of the companies that will lead to franchisors strategic groups (Martínez & Toral, 2010). Although both theories support different approaches, both should be studied because they offer a bigger picture to understand the life cycle of the franchise (Carney & Gedajlovic, 1991; Kedia, Ackerman, & Justis, 1995; Lafontaine & Kaufmann, 1994). The theory of resource scarcity emphasizes an evolution of the chain formed with the franchisor's own units and agency theory predicts a shift towards a chain with mostly franchised units (Diaz -Bernardo, 2012; Carney & Gedajlovic, 1991).

4.2 Theory of Scarcity Resources

The competitive imperative of small chains is growing faster than its rivals as a means of gaining an advantage; this suggests that small chains franchises in order to alleviate the shortage of resources in their quest for economies of scale (Carney & Gedajlovic, 1991). Theorists argue that economies of scale are crucial to the survival of the chain (Gillis & Castrogiovanni, 2012), and the desire to achieve economies of scale pressured to expand at a higher rate than using only the own resources of the franchisor (Castrogiovanni, Combs, & Justis, 2006).

Lack of capital for attaining greater geographic reach and grow in the market, requires the franchisor to find that capital outsiders, and the capacity of resources is not only capital but also knowledge of local market and managerial ability (Castrogiovanni et al., 2006). So, franchisors will use franchising as a way to overcome obstacles to growth, including a lack of trained managers and lack financial capital (Doherty, 2007).

A consequence of this, the rapid growth requires a significant increase in human and financial capital, as well as experience in unfamiliar markets, resources that a young organization may not have easy access (Lafontaine & Kaufmann, 1994), and the therefore, the use of the franchise system to overcome this limitation of resources is a viable alternative.

4.3 The Agency Theory

The agency theory (Jensen & Meckling, 1976) is used to explain the relationship between the franchisor (principal) and the franchisee (agent). According to the perspective of agency theory, managers (agents) of the units have a weak incentive to perform efficiently because a portion of their compensation is fixed salary, which is determined independently of the performance of the unit (Carney & Gedajlovic, 1991). Consequently, unit managers should be directly monitored to ensure that its performance meets the standards of the firm, which is a cost to the principal (Fladmoe-Lindquist & Jacque, 1995). Compared to the previous argument, the franchise is presented as a form of organization that minimizes monitoring costs.

Under this theoretical approach, the franchise represents a powerful incentive for the franchisee, as his compensation varies directly with the performance of the unit (Carney & Gedajlovic, 1991), so he/she will be motivated to perform effective management of the establishment and the improvement of the franchise concept. Consequently, the need for monitoring is reduced by the effort of self-fulfilling the franchisee (Fladmoe- Lindquist & Jacque, 1995).

Despite the cost advantages of monitoring that provides the franchise, many companies cannot rely on franchisees because of the perceived risks opportunism. This risk increases for the franchisor to the extent that granting more outlets could allow the franchisees to exploit the reputation of the system, providing lower quality service and products, denigrating the whole chain (Michael, 2000), by performing actions that increase profits of local business, at the expense of the reputation of the franchisor, for example not to participate in promotions (Combs, Ketchen, & Short, 2011). And the whole chain of the franchise will be negatively affected because consumers have less confidence in the quality promised franchise (Rubin, 1978).

Sanchez, Suarez & Vazquez (2008) indicate that the franchisor can reduce these risks by applying: incentives (contract renewal or granting of additional units), controls (quality audits, exclusive supply of raw materials and products) and sanctions (termination before the end of contract).

In summary, it can be said that the main reasons that stimulate the franchise are: The lack of financial and human resources, motivation of franchisees, market knowledge and control of franchisees (Rondán et al., 2007).

5 APPROACH OF THE RESEARCH HYPOTHESIS

Franchising is a business model to compete in the market through own and franchised units. This industry is comprised of franchisors of different ages and sizes offering a variety of categories of products and services in domestic and international markets. Differences in investment requirements and contractual terms between franchisors make up a heterogeneous industry.

The strategy followed by the franchisor involves a suitable combination of strategic dimensions to obtain a competitive advantage. Therefore, the specific weight of each dimension in the strategic behavior of franchisors to compete for future franchisees and consumers will be different (López & Ventura, 2001).

The age of both company and franchise reflects the experience of the franchisor (Frazer, 2000). The theory of scarce resources considered experience as a valuable resource to demonstrate that over time the model is successful and easy to replicate, influencing growth of the franchise (Perrigot, 2008). Rapid growth allows franchises to overcome the shortage of resources and achieve greater size and economies of scale (Carney & Gedajlovic, 1991).

(Shane, 1996a) documented, that franchisors use the strategy to grow with own units in nearby places, and franchised units in more geographically distant locations, so that appropriate monitoring can maintain quality and a standardized multi-national dispersed units system and internationally (Michael, 2003a), as the risks of opportunism increase as the franchisor grants more franchised units, and the franchisee could exploit the brand reputation to offer a lower quality to the detriment of the whole chain (Michael, 2000).

The agency theory considers the most relevant terms to be adopted in a franchise agreement (Lafontaine & Oxley, 2001). Franchisees pay franchisors initial investment and royalties for the use of their systems (Shane, 1996b). Franchisors selected these payments to avoid opportunistic behavior of the franchisee, so that an optimal contract involves a suitable combination of these fees (Lafontaine & Oxley, 2001).

The initial investment and the entry fee to the network make the rights of entry and are part of the pricing strategy followed by a franchisor. Franchises with strong brands must charge higher royalties so that franchisors maintain the prestige and quality of the brand (Díez & Rondán, 2004; Rubin, 1978), and also charge a higher entry fee because the know-how is a valuable asset. Shane (1996b) notes that the franchisee opportunism can be reduced through a high initial investment, since the risk of losing your investment contract cancellation inhibits opportunistic behavior.

Franchises in the strategic dimensions of age, size and growth are supported by the theory of scarcity and agency theory mainly supports the dimensions of geographic dispersion, cost of membership, contract and chain integration

Hypothesis. The franchise sector in Mexico is composed of franchisors that belong to different strategic groups.

6 METHODOLOGY

6.1 Sample

The data used in this study come from *Entrepreneur 500 franquicias Magazine* of year 2012, which reports annually data franchisees in Mexico. Previous authors have used this magazine as source data (Alba, 2010; Ayup & Calderon, 2014; Fable & Welch, 1998). These yearbooks have been frequently used in franchise research, because its information comes from franchisors ensuring greater reliability and lower bias (Rondán et al., 2007; Shane 1996b).

To verify the information in case of inconsistencies in the data we consulted the website of the franchise or made phone calls to corporate offices to correct the inconsistencies in the data of some franchises.

Additionally, the following criteria were established for the selection of the sample franchises

1. Only franchises national origin, included in the entrepreneur 500 franchising magazine years 2012. This specialized magazine reports data from the 13 industrial sectors where franchises operate in Mexico.

2. Franchises with two or more years in business. This survival time guarantees the adoption of franchising as a form of expansion by the company (Rondán et al., 2007).

Finally, a sample of 167 franchises with complete information was selected for this study.

6.2 Strategic dimensions

In this study for identifying strategic groups in the franchise system in Mexico, fourteen variables were used to integrate the seven strategic dimensions initially used by Carney and Gedajlovic (1991). Table 3 contains the variables and dimensions used in our analysis

Table 3 Strategic dimensions and operating variables

Strategic Dimension	Variables	Variable Number
Experience	Total Age : Years of the company since the start of operations Age of franchise : Years of the company as a franchise Age pre - franchise : Years before starting as a franchise	01 02 03
Dispersion	National Dispersion : States of Mexico where the franchise operates International Dispersion : Number of foreign countries where the franchise operates	09 10
Size	Total outlets in México	08
Cost Adhesion	Average initial investment excluding entry fee * Entrance fee * Royalties (% of sales) ** Advertising (% of sales) **	04 05 06 07
Growth	Franchise Growth : franchised outlets open by year (franchised outlets / age of franchise) Total growth : Total open outlets per year (total units / age of company)	11 12

Contract	Year contract	13
Chain Integration	% franchised outlets / total outlets in Mexico	14

The reported amounts of initial investment and entry fee are in Mexican pesos
The figures reported in dollars were converted into pesos at the exchange rate of November 30, 2011. (13.07 pesos/ dollar) *
The figures reported as fixed payment, were divided between the average initial investment to use as a percentage**

6.3 Data Treatment

The technique of factor analysis was used for data analysis, using SPSSv.19 software. This technique has previously been used in similar studies (Carney & Gedajlovic, 1991; Lopez & Ventura, 2001; Rondán et al., 2007).

First, the normality of the data is analyzed in each variable according to the Kolmogorov-Smirnov test. Only the initial investment variable fulfilled the criteria of normality. Then we proceeded to the transformation of variables applying square root on the data to improve the skewness and kurtosis of the variables. The chain integration variable was left with the original values, since the application of the square root did not improve the results of skewness and kurtosis.

To perform the factor analysis, the correlation matrix among the variables must be different from zero. To verify this criterion was evaluated by contrasting it to the sphericity Bartlett test. The value obtained was (1860.5; p 0.00), which means that the correlation matrix is different from the identity matrix and can perform factor analysis. The KMO (Kaiser-Meyer-Olkin) test is used to measure the sufficiency or adequacy of the sample in the factor analysis. The optimal value must be greater than 0.5. The value obtained was 0.562, meaning that the sample is suitable for factor analysis. These values confirm that the sample is adequate to perform the factor analysis.

The exploratory factor analysis was carried out. From the rotated components matrix, only those factors with an eigenvalue greater than one were retained.

Regression method was used to obtain the factor score of companies in each factor. It was performed by placing the company in the group with the highest factor loading.

To test whether the companies in each group differ significantly from the other groups, the nonparametric test comparison of means of Kruskal-Wallis was performed, since all variables did not present normality.

7 RESULTS

7.1 Identifying Strategic Groups

Rotated components matrix after six iterations confirmed the existence of five factors. These factors had eigenvalues greater than one. These results are similar to previous studies in the number of groups (Carney & Gedajlovic, 1991; Castrogiovanni, Bennett, & Combs, 1995; Lopez & Ventura, 2001). The five factors formed from the fourteen variables explained 73% of the variance. See table 4.

Table 4 - Results of factor analysis with Varimax rotation with fourteen variables

Variables	Factor 1	Rotated Component Matrix			
		Factor 2	Factor 3	Factor 4	Factor 5
Franchise growth	0.954				
Total growth	0.959				
Size	0.92				
National dispersion	0.674				
Total age		0.931			
Age pre-franchise		0.943			
Age franchise			0.736		
International dispersion			0.722		
Entrance Fee				0.793	
Royalty				0.775	
Chain integration				-0.323	
Average initial investment					0.712
Contract					0.819
Publicity					0.443
Eigenvalues	3.612	2.714	1.569	1.258	1.113
Variance explained (%)	25.800	19.386	11.210	8.986	7.953
Cumulative variance (%)	25.800	45.186	56.396	65.382	73.334

*Note: Extraction method: main component analysis.

Following Rodriguez et al. (2010), to verify that the groups are significantly different in the analyzed variables, a contrast of means was made among the five groups. To identify the companies in the different groups, each company was assigned to the group where the company had higher factor score. Companies that had higher factor score in the first factor were assigned to the first group, companies with the highest score in factor two, were assigned to groups two and so on.

Nonparametric Kruskal-Wallis technique was used for contrast of means among groups, because the variables did not present normality. The results revealed that 12 of the 14 variables were significantly different (p value ≤ 0.05). Only the identified variables as age and chain integration, were not statistically different between groups.

This contrast confirms the existence of significant differences between the various identified. In this way, it is confirmed that the groups are homogeneous within themselves, but heterogeneous with respect to the rest of the groups (Rondán, Navarro, & Diéz, 2007). In the next step we interpret the information of the variables included in each factor.

Group 1: These franchisors have grown very fast in both owned and franchised units, have a larger size and greater national geographic dispersion. They are chains that are composed mainly of franchised units; this group will be referred as **fast growing** (Carney & Gedajlovic, 1991; Castrogiovanni et al., 1995; Rondán et al., 2007).

Group 2: This group is formed by the oldest businesses with more years of operation. These franchisors took a long time to adopt the franchise system. This group was referred as converter (Carney & Gedajlovic, 1991; Castrogiovanni et al., 1995; Martinez & Toral 2001; Rondán et al., 2007).

Group 3: Franchisors reflecting a greater number of years franchising. Their business concept has been under this system for a long time, allowing them to gain sufficient experience developing the franchise concept. This experience allowed them to achieve greater internationalization. In addition, these chains are composed mainly of franchised units. This group was called **experienced and international franchisors.**

Group 4: Franchisors that require charging a high entry fee to transfer their know-how to the franchisees. This group has a level of internationalization just below the group 3. We have called this group high entrance fee. This factor was identified in Lopez (2001) as financial conditions.

Group 5: Group of franchisors that require high investment and long-term contracts. This group was called **expensive and conservative** (Carney & Gedajlovic, 1991; Castrogiovanni et al., 1995).

8 DISCUSSION

According to Ventura Lopez (2001), the composition of the five strategic groups based on original variables allows a better understanding of their behavior. Table 5 shows the data of this composition.

Table 5 - The means of the original variables of the five groups

	Fast Growth	**Converted**	**Experienced and International**	**High Entrance Fee**	**Expensive and Conservatives**	**Total**	
No Franchises	**16**	**48**	**35**	**28**	**40**	**167**	
Percentage	10%	29%	21%	17%	24%	100%	
Group	**1**	**2**	**3**	**4**	**5**	**Average**	**Desviation**
Franchise Growth	**80.1**	3.9	3.3	4.5	**2.9**	10.9	62.1
Total Growth	**50.0**	2.4	**2.0**	3.5	2.6	7.1	31.8
Size	**456.0**	40.6	48.7	36.7	**30.1**	78.9	270.1
National Dispersion	**20.3**	9.1	8.7	10.1	**8.4**	10.1	9.5
Total Age	**11.5**	**29.4**	18.2	11.5	15.7	19.1	17.1
Pre -Franchise Age	**3.8**	**22.2**	9.4	4.1	8.5	11.4	15.3
Age of Franchise	7.7	**7.2**	**8.8**	7.4	7.3	7.6	5.1
International Dispersion	0.5	**0.0**	**2.0**	0.5	0.1	0.6	3.3
Entrance fee *	**216,603**	243,959	268,883	**934,417**	329,915	382915.3	1176590.0
Royalty	**6.2**	**2.5**	2.7	2.6	4.5	3.4	6.2
Chain integration	**75.4**	67.8	68.9	74.6	**64.1**	69.0	24.0
Average initial investment *	**429054**	1108519	905147	1303312	**2376654**	1337202.6	3596695.4
Contract	6.2	**5.3**	5.6	6.3	**7.9**	6.3	3.3
Publicity	0.6	1.2	**1.9**	**0.6**	1.1	1.2	1.6

Source: the author
Entrance fee and initial investment are in Mexican pesos (exchange rate 13.07 pesos/ dollar) *
The maximum and minimum among the different groups are in bold

Next, the characteristics of each group are described

Group 1: The group identified **as rapid growth** is composed of 16 franchisors showing high growth of the chain (50 units / year), and high growth in franchising (80.1 units/ year). These systems have the highest average size with 456 units; also maintain high national presence in 20.3 states on average. This group is characterized by its lower investment ($429,054) and entrance fee ($216,603). These chains are known as low investment type, to attach many franchisees manifested by a high proportion of franchisees (75.4%). The strategy of competing in the market by franchisees seeking economic systems, allows this group to achieve greater growth, size and wide presence in the national territory. Another feature of this group is that in a short time (3.8 years on average) it adopted the franchise system. i.e. from its birth, the company goal is clearly defined to use franchising as its main strategy of expansion and growth.

Group 2: The group called **converted** is characterized by the older companies (29.4 years), who adopted the franchise system after a long time since they started operations (22.2 years).

These franchisors developed their business concept for a long time before deciding to adopt the franchise system as a strategy for business expansion. This group is composed of 48 companies operating exclusively in the domestic market, by not presenting any degree of internationalization. This group is the largest.

Group 3: This group called **experienced and international franchisors** is comprised of 35 franchises, which reported an average time of 8.8 years as franchisors, the highest among all groups. Therefore, their experience as franchisors has allowed them to internationalize their business concepts and expand into foreign markets (2 countries on average). This group reported an average size of 49 units and the age of the companies is 18.2 years, the second highest among the groups. For these chains, the franchising experience and age are important factors for their internationalization. This group uses the strategy of internationalization as a way to grow in foreign markets, in addition to the national market.

Group 4: This group called **high entrance fee**, is characterized by high entry fee required franchisees to join the chain ($ 934.417). The average initial investment is the second highest, only after the fifth group. It is noted that advertising and royalties established by franchisors are less than the average. The growth of these franchises is only 4.5 units, below the first group. Like the first group, they are the youngest group of companies with an average age of 11.5 years, who adopted the franchise system in a short time (4.1 years) after its formation, which expresses their confidence in the franchise to grow. Their level of internationalization is second after Group Three. This group consists of 28 companies with an average size of 36.7 units. This group considers that its intangible assets are very valuable and require the highest entry fees and long contracts to its franchisees to avoid opportunism. This group also has an international growth strategy. In short, this group is defined by cost adhesion dimension.

Group 5: This group identified as **expensive and conservative** is formed of 40 franchisors that require the highest average investments ($ 2, 376.654) and the longer contracts (7.9 years) to join the chain. This reflects that franchisors use long contracts to maintain long-term relationships with its franchisees and allow these recover their high initial investment. This group is characterized by lower average chain size (30.1 units), the lowest annual growth (2.9 per year) and the lowest national dispersion (8.4 states); it also maintains the lowest proportion of franchise chain (64.1 %). Also, because of its low level of internationalization, its focus is on the domestic market.

9 CONCLUSIONS

This work has confirmed in a sample of 167 national franchises the existence of five strategic groups in the Mexican market, which coincides with previous studies in other countries prepared by Carney & Gedajlovic (1991), Castrogiovanni et al. (1995), Lopez & Ventura, (2001), Rodriguez et al. (2010).

The variables used in this study define the behavior of Mexican franchises in the five strategic groups. The strategy of growth through low investment franchises to overcome the lack of resources to allow greater size and national presence in a short time, seems to define the strategic behavior of the first group. For companies in the second group, the experience is a valuable resource that allows consolidate their business concept (know-how and branding) before adopting the franchise system.

The variables age of the franchise and international dispersion define the experienced and international franchisors. The age of the franchise stimulates international expansion strategy of these Mexican chains. The cost of adhesion dimension helps explain the formation of group four where franchisors strategy is based on the high entrance fee, long contracts but low royalty and advertising fee. Shane (1996a) points out those franchisors with high value intangibles use this strategy to avoid opportunism of franchisees. Group five called expensive and conservative, base their strategy on long-term business relationships by requiring high initial investment and long-term contract.

In summary, it appears that the experience, size, growth and dispersion dimensions define the formation of the first three groups. The cost of adhesion and contract dimensions defines the formation of the groups four and five.

We confirm that the franchise model is used by a variety of industrial sectors, which use the franchise to compete in domestic and international markets, and its competitive strategy is shaped by strategic dimensions. The specific weight that the franchisor grants to each dimension (experience, investment, years of contract, internationalization, integration of the chain, royalty, etc.) to grow and compete in the market determine its belonging to a specific strategic group.

This study confirms the heterogeneity of franchisors operating in the Mexican market, which is composed of chains of different sizes, ages, contractual terms and investment requirements. In addition, this work contributes to the knowledge of the behavior of strategic groups of franchisors in a Latin American country, unlike previous studies that have been applied mainly in developed countries.

Additionally, with the identification of strategic groups this study helps to understand the business strategies used by Mexican franchisors.

10 LIMITATIONS AND FUTURE RESEARCH

Within the limitations of this research we can mention the number of variables involved in the study. So in the future researchers may consider additional variables such as market segment, sales and return on investment.

Another limitation concerns to the sample size, which can be extended to verify the permanence of the groups in larger samples and also include companies of foreign origin.

A future line of research may consider evaluating strategic groups over time to verify if they remain stable or change over time. We believe that this future study involves a challenge, but contributes substantially to a better understanding of the strategic groups in the franchising sector.

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