Internationalization through Franchise: The Parfois Case Study

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Abstract

Both franchising and internationalization are important subjects of study, but in the existent literature little attention has been given to these two topics combined, or the internationalization through franchising. The purpose of this paper is to analyze that subject, internationalization through franchising, using as a case study the internationalization process of Parfois, a specialized retailer based on the North of Portugal, and operating in the fashion accessories business.

In this case study we analyze the options taken by the company during the years, regarding its expansion abroad, the different patterns, and different paths followed throughout the years. All the moves are analyzed over the explicative models of internationalization, and the drivers of each move are identified. This analysis evidences that there is a clear pattern in the internationalization process of Parfois: the company is willing to open own stores in the European market, where it feels comfortable, letting partners to assume the investment risk in other world regions, with particular relevance for the Middle East and Eastern Europe, regions with significant market growing over the last years, due to the increasingly openness to the "Occidental world", and to their brands and companies.

We believe that the Parfois case study can be a valuable example to other companies how to internationalize. In the international competitive market, it's highly valuable to companies to choose the right internationalization path, being highly valuable to understand how a relative small company, based on a depressed European zone is able to expand rapidly worldwide. Furthermore, the lack of existing literature about internationalization through franchising in specialized retailing companies adds value to this study.

Keywords: Internationalization; Foreign Market Entry Mode; Franchising; Retailing; Parfois; Portugal; Accessories.

1. Introduction

The internationalization of a company is one of the most critic moments in its life. In an aggressive, global and competitive world market it is crucial to understand the market and to choose the best option.

The existent literature is quite unanimous about the forms of internationalization (modes of foreign entry) that a company can adopt, using four well-known and used hypotheses (Root, 1995):[1] acquisitions, organic growth, joint ventures, and franchising. In this study we will focuses on the franchising option, not omitting the other forms, mainly the organic growth. Franchise, as defined by Grant (1985), is a unique business relationship where the franchising company, the franchisor, grants a license to its franchisees, entitling them to make use of a complete business package, including training, support and the corporate name, thus enabling them to operate their own business, to exactly same standards and formats, as the other units in the franchising chain. The franchisee is usually obligated to pay to the franchisor a initial start up value, plus periodic amounts, fixed or variable, linked to sales. Both parts have responsibilities and rights.[2] By organic growth we understand all the growth movements, in this case internationally, company owned excluding acquisitions or mergers.

Franchise is increasingly important worldwide, with an important impact in the world economy. According to the International Franchise Association, the direct impact of franchising in the North-American economy is high, representing more than 8% of the total private sector employment market and over 4% of the total private gross domestic product (GDP) of this country in 2005. Also in Portugal the franchising has an important role, representing 3,1% of the total GDP, with over 3,5 billion Euros, in 2008.[3]

The objective of this paper is to analyze the internationalization through franchising, using as a case study the internationalization process of Parfois, a specialized retailer based on the North of Portugal, and operating in the fashion accessories business. We intend to understand how a company created in the 1990's, Parfois, is able to expand worldwide through the implementation of franchisees across several countries, and how is it possible to manage that

[1] Other authors usually use other classification, but in the retailing area, and in this paper this is the best classification for internationalization methods.

[2] In a similar way, Curran and Stanworth (1983) define franchising as a contractual relation between the franchisor, who had developed a specific product and service and allows another company, the franchisee, to sell their product or service in a particular location, in a pre-determined period of time in a given way, for a initial fee plus a percentage of annual sales made by the franchisee.

[3] Source: Instituto da Informação em Franchising.

relationship. In this paper we will also try to understand, which are the main drivers to adopt franchise, over other forms of internationalization, such as organic growth. Studying this company, we will try to figure why they are doing so many franchise contracts and if there is any similarity in the markets/countries where franchise is most used. Specifically, there are three main dimensions to answer about franchising options:

When? – Is there any correlation between economic cycles and the franchise options? Is there any point in the company life where the franchise is the best option?

Why? – Is the franchising risk/benefice trade-off positive for companies or is it just the best way to grow quickly? Is the lack of capital the main trigger for the franchising option? Is it the only way to grow fast enough in a highly competitive environment?

Where? – Some evidences show that franchise is most common in some regions. Is the market size an important decision maker? Or is the political risk the main question? The knowledge of market can lead to a franchise options on psychological distant markets? Is the available partner a decisive question?

With the Parfois study we will be able to understand these three dimensions in the company.

In the international competitive market, it is highly valuable to companies to choose the right internationalization path. We believe that in this context, the study of the franchise option could be an important contribution to companies. The Parfois case study can be an important example to other companies how to internationalize. It is highly valuable to understand how a relative small company, based on a depressed European zone is able to expand rapidly worldwide with a strategic approach in the internationalization process. Furthermore, the lack of existing literature about internationalization through franchising in specialized retailing companies, adds value to this study. We are able to identify and read existing literature about both franchising options and characteristics and internationalization of companies, but it is rare the literature about the combination of these two issues. We believe that it is quite important to understand why so many companies, mainly in the fashion retailing business, are nowadays betting in worldwide development based on the franchise model. Companies like Mango, Inditex or GAP are world leaders in the fashion specialized retailing and they have in common the fact that all of them do franchising deals over the world.

Additionally, there are few papers about Portuguese international companies, mainly in the retail sector, and it will be interesting to analyze how a small Portuguese company grew over the last 20 years, to become a top player in its sector. It is also our objective to show that the internal small market dimension may be an advantage in companies' internationalization. In order to overcome the natural limitation of their own country and their market companies tend to internationalize earlier in their life cycle.

According to the existing literature, the internationalization of companies may result from two main reasons: the saturation of national markets, or the lack of opportunities in these markets (Kacker, 1985; Treadgold, 1988; Salmon and Tordjman, 1989); and international opportunities (Alexander, 1990; Williams, 1992). We will see that Parfois internationalization was mostly influenced by pull factors, following the market attractiveness and the new emerging markets opportunities, rather than the push factors, dominated by the internal market saturation (Robison and Clarke-Hill, 2000), expanding in countries such as Central and Eastern Europe, Middle East and Asia.[4]

Regarding the internationalization process of firms, Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977) assumes that initially the company develops in the base market, and the internationalization is the natural consequence of incremental decisions, while the lack of knowledge and resources are the main obstacles to the internationalization process. These obstacles will be minimized through incremental decisions, and international markets knowledge, so when a company enters a new market it is wise to start with a low resource intensive strategy (reducing the inexperience risk) moving slowly over time (with greater market knowledge and experience) to more resource intensive strategies, with higher risk, control and profits.[5] It is also expectable, that over time, the company starts to engage in more psychic distant markets. The internationalization process of Parfois seems to corroborate some aspects of the ideas defended by Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977).

The paper is organized as follows. In section 2 we present a brief literature review regarding the internationalization process model and regarding foreign market entry modes (particularly the franchising option). In section 3 we focus on Parfois case study, analysing its expansion

[4] In the increasingly global market, the expansion of the European Union, and the Euro-zone, distances between European countries have collapsed (Demirbag et al., 2003), allowing companies to enlarge their market.

[5] This model is designated by several authors as the Uppsala model or the internationalization process model.

abroad. In section 4, we report the main conclusions, and finally, in section 5, we focuses on the limitations of this paper and highlight paths for future research.

2. Literature Review

2.1. The internationalization process of firms

International operations involve risks due to differences in market system, or politic system and cultural distance, demanding companies to adapt to new realities. In this way, Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) advocate a progressive involvement in international markets.

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According to Johanson and Wiedersheim-Paul (1975), the gradual international involvement of the firm, should follow these consecutives stages ("the establishment chain"): no regular export activities, export via independent representatives agents, sales subsidiary and finally productive units. These four stages represent an increase on the company commitment, leading to different market experiences and information.

In order to explain the incremental character of the internationalization process, Johanson and Vahlne (1977), developed a dynamic model where the result of one stage is the input to the next stage. The idea in the model is that the entire process is the result of a series of incremental decisions, and that the combination of all the decisions, become the internationalization process. Additionally the model emphasize that companies will start to enter, over time, in psychic more distant countries.[6]

To sum up, Johanson e Vahlne (1977) use the export and production examples, starting with companies with no exports, over time starting to export via independent agents, creating a sales subsidiary in the country and finally producing in the destination country. We may understand the franchise as a low commitment/investment entrance mode, compared to the own stores openings, the increasingly market knowledge and the consequent higher commitment.

2.2. The internationalization through franchising

Franchising is a contractual relation between the franchisor, who had developed a specific product and service and allows another company, the franchisee, to sell their product or service in a particular location, in a pre-determined period of time in a given way, for an initial fee plus a percentage of annual sales made by the franchisee (Curran and Stanworth, 1983).

Within the last decades, the process of globalisation has expanded rapidly. Global markets are nowadays a reality. Companies feel the need to internationalize in order to survive and to achieve success. As so, franchising has been used as one important way to companies to go global. The internationalization of retail companies is a relative recent phenomenon; becoming relative common between large companies in the 1990's, but still rare between the SME's retail firms worldwide (Dawson, 1994).

Despite the natural advantages of large retail companies, with larger amount of resources, both financial as human, smaller retailers are capable of strong international growth due to their unique concepts, products, formats and agility, compared to large companies, been also able to take advantage of easier franchise agreements, due to lower investment, which allow them to grow rapidly (Alexander and Quinn, 2001).

In Iberian countries, Portugal and Spain, the franchising has been increasingly important in the last decade, as a path to the companies of these countries to internationalize, and has been

[6] Johanson and Vahlne (1977, p.24), define psychic distance "(…) *as the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development".*

one of the most active drivers to those companies to expand their operations worldwide' (Pedro, 2009).

Although the obvious importance of franchise in the internationalization process, there is little literature about this topic, retailing companies internationalization through franchise. Therefore it is necessary to focus on some franchising and internationalization process literature to fully understand the internationalization process through franchising.

As we have mentioned above, franchising is a unique business relationship where the franchising company, the franchisor, grants a license to its franchisees. This arrangement has obvious advantages to both franchisor and franchisee. The franchisor has the ability to expand rapidly while spreading costs and risks across the network, also gaining the franchisee knowledge of local markets, minimizing cultural and language differences, bureaucratic red tape, or political problems. Is also a direct source of financial income and information and limits the franchisor commitment to new markets. The franchisee is buying a successful business, with a known brand, a operational working business, being able to reduce time and financial spending in store development, marketing efforts or commercial deals paying a fee for the franchisor knowledge and brand use (Quinn and Alexander 2002).

From some literature analyses, the internationalization of companies may result from two main reasons: the saturation of national markets, or the lack of opportunities in these markets (Kacker, 1985; Treadgold, 1988; Salmon and Tordjman, 1989), driven companies' attention to international markets, in order to grow and obtain higher profits; and international opportunities (Alexander, 1990; Williams, 1992). The reactive internationalization occurs when the key drivers for companies' internationalization are the saturation and marginal opportunities of internal market, while the proactive internationalization is based on the company willingness to explore the international markets even before the home market reaches the saturation point (Quinn, 1998).

For the internationalization through franchise, Welch (1990) uses the same approach, with a slight difference: the saturation of national markets, and the increasing domestic competitive pressure and the franchisee interest, or the international opportunities, where the companies internationalize in a non-proactive way, been approached by foreign companies in order to franchise their brands. In this research Welch concludes that in most of the cases there is a combination of these two factors.

The existent literature mentions, however, other important factors. Doherty (2005) makes an interesting survey concerning the factors that influence the internationalization through franchising, which are reported in table 1.[7] Doherty (2005) aggregates all these motivating factors, in two main groups: the organizational and the external environmental factors.

The organizational factors are the internal factors of each company, which can drive to the internationalization. The companies specific resources, like innovative technologies or management capacity (influence of key managers), or the company own characteristics, the sales force, financial capability, international retailing experience, and presence of a franchise retail brand, an innovative product or some other distinguishable aspect which give the company serious advantage over the competition.

Table 1: Motives for internationalization through franchising

Motives	**Author**
Fortuitous franchisee interest/contact from third parties	Walker and Etzel (1973), Hackett (1976), Walker and Cross (1989), Welch (1989, 1990) and Abell (1991)
Exploit potential markets	Hackett (1976), Hoffman and Preble (1993), Welch (1990) and Hopkins (1996)
Increase sales and profits	Trankheim (1979), Kedia et al. (1994) and Hopkins (1996)
Market expansion	Trankheim (1979), Kedia et al. (1994) and Welch (1990)
Domestic market saturation, which prevents firms to grow	Hoffman and Preble (1993), Welch (1990) and Eroglu (1992)
Desire to be known as an international firm	Trankheim (1979) and Hopkins (1996)
Perceived favorability of the external environment	Eroglu (1992) and Hoffman and Preble (1993)
Firm size	Eroglu (1992) and Aydin and Kacker (1990)
Desire for growth	Walker and Cross (1989)

Source: Adapted from Doherty (2005, p. 186)

The other group of factors are the environmental ones, which are external to company, as the contact from third parties (availability of potential franchise partners), or the possibility to explore international market (opportunistic approaches) or the increasing domestic competitive market. The economic and demographic factors, either from domestic and foreign markets, the possibility to grow or not in these markets are also factors that can drive companies to franchise.

[7] It is important to stress that this literature is based on the basic premise that the firm, which is considering employing franchising to enter in a foreign market, is already practicing franchising in its domestic market.

In this context, Quinn and Alexander (2002) argue that domestic franchise experience is crucial for international success in two main ways: the development of skills, knowledge and experience, that companies acquire with national franchisees, which will be exploited later when the company starts to do franchise internationally, but it also creates a network, and a tangible statement to potential franchisees, that would be able to confirm the success of the business, allowing the company to test the model of the stores and the franchise model, as well as being able to show their capability to other companies worldwide. This corroborates the research made by McIntyre et al. (1991), and their model of growing commitment to foreign markets, where companies start by doing franchise domestically then start the experimental international involvement, escalating to active involvement and finishing in the committed involvement. These steps towards the full international presence, through franchise, can have different velocities depending on how adverse to risk companies are.

There is also a third group of factors, the motivational ones, that are also used, but not necessarily apart from the organizational factors. One of these factors is the management motivation, or international experience (Kedia et al, 1994; Eroglu, 1992 and Cavusgil and Nevin, 1981). Pedro et al. (2008) applied these motivation factors as a third new group to study the Iberian Franchising Network, combining it with the organizational and environment factors. These factors are synthesised in table 2.

Table 2: Internationalization inducing factors

Organizational Factors[8]	Environmental Factors	Motivational Factors
Company age	Economic	Desire for growth
Network structure	Demographic	Desire to be known
Geographic dispersion	Geographic distance/Cultural difference	Desire of higher profits
Commitment	Political/Legal	Management experience/interest
Company size		

Source: Adapted from Pedro et al. (2008, p. 68)

To sum up, throughout the existent literature we observe several potential explicative factors for companies to internationalize themselves through franchise, but there is also some literature showing that there is no evidence of pre-definition on what strategy companies will adopt in the foreign markets in order to internationalize.

[8] As Pedro et al (2008) report, the organization factors are also associated with the theory of resources, meaning that it is necessary some kind of resources owned by the company in order to be able to proceed successfully with the franchising internationalization.

Lessassy and Jolibert (2007), in their paper about 25 food retailers, observed that it is common the use of multi-strategy entry method in different markets. They concluded that the strategy may vary according to geographic and cultural factors, financial capability, and others. The authors also concluded that franchising option may be used as a first step to later joint-ventures or acquisition strategies, and they did not found any franchising in Eastern Europe or Asia, probably due to the lack of financial power and knowledge of local possible partners. This is quite different in non-food retailers, where the financial investment is significantly lower and the logistic operation quite simpler.

The path used by companies to internationalize, is also a factor to analyse in order to understand the importance of franchise. Many companies analyzed in several studies, started by self-owned stores internationally and after some negative results changed the strategy by doing franchise contracts with local players (Quinn and Alexander, 2002; Doherty, 2005). These findings may support the Johanson and Vahlne (1977) theory. As we have mentioned above, the authors advocate that companies start their bet on a new foreign market in low commitment strategies, and when they are more comfortable and their knowledge of the market is better, they may increase their commitment in that market. It is also possible to combine the Johanson and Vahlne theory with the psychic distance (Johanson and Wiedersheim-Paul, 1975), explaining the possible commitment level that companies are able to accept from different countries. As the psychic theory explains companies may have facilitators or barriers to obtain market knowledge, such as the language, culture, the different levels of education and many others. These factors are usually related with geographic distance, but in many cases it may not be the case, as the Portugal and Brazil relationship, even if geographically distant, there are a clear psychic proximity between the two countries, starting in the language, but also in many cultural aspects and the continuous exchange between the countries.

Finally we took in consideration the findings of Welsh et al. (2006), about the new emerging franchising markets worldwide, analyzing the United States and United Kingdom past franchising growth, and focusing in the new franchising markets. In this study we are able to identify markets, as Kuwait, India, China, South America, as the new trend for franchising business, due to less competition, occurring in much higher margins and profits, but also in these markets opening to new cultures and new fashion trends.

3. Parfois case study

3.1. Methodology

To understand the entire process of internationalization taken by Parfois, we obtained several information through the recollection of data from several sources: from companies' websites, the World Bank database, and some news reports about Parfois. We have also met with the responsible for the internationalization of Parfois and its team, having in posterior moments, through e-mail exchange, recollected several more information. In this interview we have follow a questioner (see Appendix 1) in order to have answers concerning important questions about Parfois internationalization like when, how and where.

In the end it will be possible to analyze the representativeness of franchising in the total process of internationalization of this company and how successful the methods used, have been for Parfois.

3.2. Parfois characterization

Created in 1994, Parfois is a fashion accessories specialist, designing and selling a wide range of products, from shoes and hats to jewellery, handbags and purses. At time Parfois was a pioneer in the Portuguese market, since the accessories offer was quite limited.

The first Parfois store opened in the top Porto's commercial street, Santa Catarina Street. Parfois started than to opening in shopping centres, pursuing the new Portuguese commercial trend in the 90's. It was the fast expansion in the shopping centre stores concept that gave Parfois the necessary dimension and projection in the country.

Actually the company has two design teams, in Porto and in Barcelona. The main company goal is to offer to costumers high fashion products at a low price. And is this philosophy that allows Parfois to grow in international markets. In less than 20 years Parfois grow largely, not only in the number of stores, but also in the number of countries where the company is present and where it sells their products, through stores.

Saying so, we believe that Parfois is a great company to study, and to understand how they were able to get to this point, in such a short period of time. Parfois gives an important focus on their stores, using them as a communication vehicle, not only as a sales driver. In this type of business, the fashion accessories, it is highly important the image of the company and the values shown by stores and products.

In this competitive market, with an increasingly raw materials costs, new brands and competitors, the company success is clearly expressed in the following figures: Parfois revenues grew from 8 million Euros in 1999 to over 28,5 million Euros in 2008 and from 0,2 million Euros of profits to over 1,6 million Euros, representing a 240% of revenues increase and a 700% profit increase in 10 years of activity. The profit margin has also duplicated from 1999 to 2008.[9]

Parfois engaged early in the franchising business, starting to franchise Parfois stores in Portugal before starting to operate in other countries. In 1996, Parfois already had franchisees in Portugal, which gave the company the necessary experience to manage international franchisees easily, one of the factors considered as crucial for the international franchise success, by developing skills, knowledge and experience, but also by validating the potential success of the business by having previous success statements (Quinn and Alexander, 2002).

3.3. The Parfois expansion strategy[10]

Parfois is now present in over 16 countries, and 19 regions. Besides Portugal the company is present in Europe, the Middle East, Russia and Kazakhstan, in Africa, Egypt, Angola and Mozambique, and in Asia, Philippines.

The first international movement made by the company, in 2003, was the natural expansion to the only Portugal neighbour, Spain. This is the typical move made by most of the Portuguese international companies. The expansion over borders to Spain is the natural expansion, where companies usually tend to expand to familiar markets, with geographic and psychic proximity, as well as similar retail structural development (Pellegrini, 1994). The homogeneity of tastes, laws, cultural rituals, as well as the similarity of climate, trends and collections facilitates the expansion with no or little changes in the product line. Being a safer expansion, the movement is usually made with own stores, as made by Parfois. The Spanish market is considered as strategic to the company expansion. Parfois has now 11 own stores in

[9] Amadeus database information.
[10] All the following information was obtain through the interviews with Parfois staff and in the subsequent information exchange.

Spain, turning Spain in the most important international market to the company, due to higher revenue that the company gets with own stores.

In the same year, Parfois had also expanded to other international market, the Saudi Arabia, in a franchise agreement with Azadea Group, to open stores in the kingdom. The opportunity to expand to the Middle East arrived through the partner approach to the company in a fortuitous franchisee contact from the Azadea Group, one of the factors referred by many authors as one of the main drivers that lead companies to franchise their brands, as we have already mentioned in section 2. Not being part of the expansion plan, the opportunity to grow and the low investment required, ensuring quick growth, enabling the market coverage with little investment risk (Bai and Tao, 2008) impelled the company to open stores in the Saudi Arabia. The partnership is working very well since then, being the 17 stores in the country and the renewed contract between the parts the living proof of that.

This expansion is in line with the findings achieved by Welsh et al (2006), where companies are starting to engage new markets, mainly emerging markets, with low saturation and with an increase demand for products with occidental standards. This is the case of the Middle East markets, such the Saudi Arabia, but also as the Eastern Europe markets, where Parfois also have franchise agreements.

The year of 2003 is then the first international year for Parfois, occurring in two different ways, through own stores investment in Spain and with a franchise agreement in Saudi Arabia. We are than facing a two way expansion strategy, investing in strong, similar markets and trying to potentiate the strong investments made by local companies in distant, growing and financial capable countries. This is a strategy of resources allocation, (Bower, 1986) where companies with limited resources are obligated to focus the investments in certain scenarios, letting others to assume the risk and investment in riskier markets. With the limited financial capability Parfois invested in a similar and less risky market, letting Azadea manage the risk and investment made in Parfois stores in Saudi Arabia.

Through 2004 Parfois kept investing in Spanish stores, while they made new countries opening through franchise agreements, keeping the growth in the Middle East region, opening stores both in Kuwait and in the United Arab Emirates (UAE), with the agreement established with Azadea Group. The store opening in these two small countries follows the success obtain in the Saudi Arabian market, existing now 4 stores in the Emirates and one store in the Kuwait state. This world region seems to be the franchise paradise to European, American and Japanese brands, where they can find solid, financial capable partners, willing to bring retail strong brands to these countries. This is actually one of the world regions where we can find more Portuguese retail brands, as Parfois, Salsa Jeans, Sacoor Brothers and Zippy Kidstore from the Sonae brand portfolio. Looking at the brands present in the Middle East it is hard not to find any mainstream occidental brand, such as Zara, MNG Mango, GAP, H&M, all engaged in a franchise relationship with a local partner.

We can also identify several strong local partners such as Fawaz Al-Hokair, which is the franchisee of over 70 brands in Saudi Arabia, or Al Shaya group with over 55 international brands in their franchisee portfolio, but also the Parfois partners Azadea Group, with 35 brands in franchisee agreements. There are several players in the market with many franchisee agreements such as Jawad Group, Al Sawani, Nesk, Liwa, Al-Futtaim, Al-Mutawa, Anwal Group or Rubaiyat. It is clearly a region where fashion retail is driven by franchise of international brands.

The following year (2005) was quite different in the Parfois international expansion, finding store opening in the Canarias Island, trough a franchise agreement with a local partner, being present both in Gran Canaria and in the Tenerife Island. But the most significant movement was the opening of own stores in a new European country – France. This was the third country with Parfois own stores presence, and the continuation of a natural expansion, with focus on countries with high cultural and geographic proximity. The approach to the French market is also based on the visibility. Being Paris one of the international capitals of fashion the ability to follow the French trends in loco was also a plus in the store opening, but is also a brand visit card, having a store in the French capital. Since then Parfois has only opened one extra store in France.

The 2006 year was an international non active year, or a preparation year to the 2007 international boom of the company, when they opened stores in eight different countries, from Kazakhstan to Angola. It was also the year of the franchise affirmation, as all stores opened in new countries over the year were under franchise agreements.

Parfois kept in 2007 the growth in the Middle East countries, implementing stores in Jordan and in the Sultanate of Oman, where actually have two stores, the same number as in Jordan. The Middle East partner kept their bet in the Parfois stores over the years, showing the capability of the company and the success of the Parfois store concept in the region. In 2007 there was a new expansion vector, the opening in the East Europe, another less developed region in terms of specialized retail, particularly in the accessories business. There were new partner agreements to introduce the Parfois franchise in this region, particularly in Romania, Latvia, and Ukraine. These former communist countries are progressively opening their markets to occidental brands, having nowadays a much more developed real estate market, with the construction of new shopping centres, and a much more similar retails system to the occidental European markets, giving the possibility to brands to enter these markets.[11]

Once more, the agreement was signed after a partner approach to Parfois, showing interest in opening stores in these countries. It was a non-proactive agreement, in another non-preferential region, with a higher economic and political risk. Parfois show the acceptance to enter non-preferential markets, under franchise agreements, minimizing the risk and the investment, which is line with theoretical literature mentioned above. Parfois have actually 4 stores in Romania, as well as in Ukraine. In Latvia, since 2007 no additional stores have opened.

Still in 2007 there was another three countries with stores openings and franchise agreements. Russia and Kazakhstan also had their first stores in this year. Two of the new economic and emerging economies are driven by the escalade of the oil prices, which have been booming in the last 5 years. Kazakhstan is one of the countries with faster growth and market expansion in the last years, with 35% of GDP growth from 2005 to 2008. We have being able to see the increasing number of international brands opening in the Kazak capital, Astana. Parfois was a pioneer in the Kazakhstan market, been followed by a huge number of international brands. In Russia the process was similar, with the approach of a local partner, potentiating the Parfois brand capabilities, and being responsible to invest and take the market risk. The two Kazak stores as well as the three Russian stores are part of the Parfois store portfolio in 2010.

Finally 2007 brought Parfois premier in Angola, with a store in Luanda, Angola's capital. Once more the brand is represented in Angola, with their two stores, by a franchisee, which approached Parfois to get the brand rights to the emerging African country. Angola is actually one of the most common Portuguese country investment destinations in the last years, supported in the Portuguese control and presence in the ex-colony over centuries, being able to capitalize the natural cultural bonds, as well as the language and historical presence. There is also a strong Portuguese presence in Luanda, as well as some other foreign nationals

[11] According to the European Shopping Centre Development Report (2010), Russia was in 2009 the top new Shopping Centre GLA in Europe, with Poland, Romania and Ukraine also in the top 10, keeping the trend for 2010 expected end year.

working in Angola capital, enabling a much stronger international retailers presence in the city.

To sum up, the 2007 years was the most intense franchising and international year for Parfois, counting eight countries in three continents, an impressive number.

The 2008 year was naturally calmer, in order to stabilize the franchise agreements made in the previous year, concentrating the company efforts in their new reality, enhancing their creation and distribution capabilities, in order to maximize their profits and franchisees satisfaction. Mozambique was the only franchise agreement signed in that year, another Portuguese ex-colony, with the same particularities as Angola. There is only one store in Mozambique, in the country capital city – Maputo.

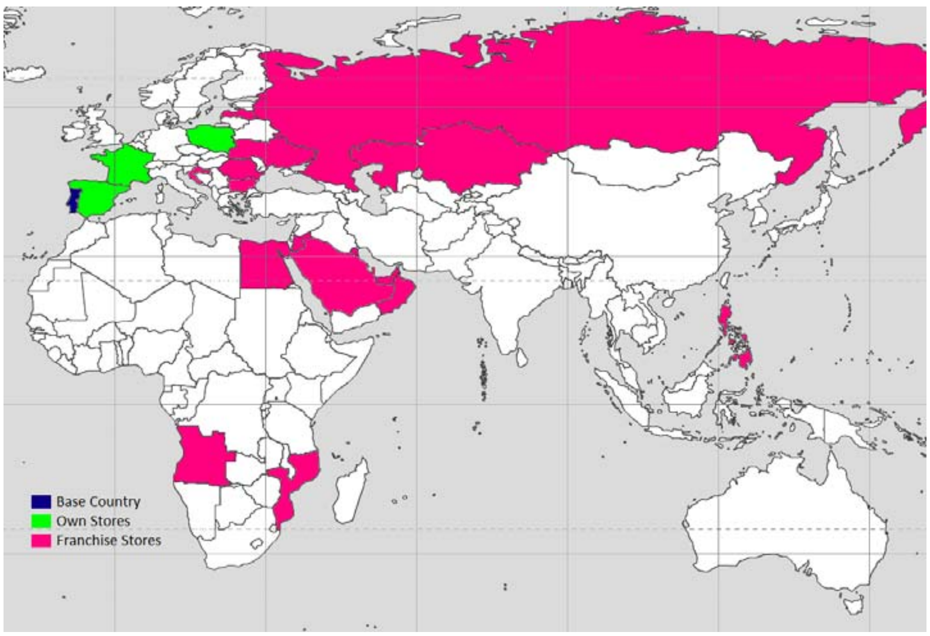
Bahrain first store opened in 2009, in the same partnership with Azadea Group throughout the Middle East. The continuous expansion of Parfois in the Middle East is a great success story to the company. Following this success Parfois open the first store in Egypt in the exact same year, in Cairo, having now an additional store in Alexandria. Croatia also received the Parfois first store opening in 2009, under and franchise agreement with a local partner. This seems to be the new franchise vector, based on new eastern European countries, recently open to occidental retail.

The own store expansion had in 2009 a very important year, with an additional country added to the company portfolio – Poland. Parfois responsible saw in this emerging European giant a great opportunity to grow rapidly. Poland is one of the largest European countries, with 38 millions of inhabitants and one of the fast growing countries in the continent, with GDP growth from 2005 to 2008 of 23% against the Portuguese 4% or the French 7% (Word Bank data indicators). A distant country, showing recent good macroeconomic indicators as well as political and economic stability is some of the positive factors of this market. Poland is increasingly approaching the occidental Europe fashion standards which are also an important factor to understand the polish market entry. This is a serious Parfois bet, having opened 8 stores in only a year in the polish territory, all of them being company owned. This is a shift in the company strategy, opening stores in growing markets, instead of keeping the focus on mature markets, with low growth.

During 2010 year Parfois already added two more countries to their stores portfolio. The first movement was made in East Europe under a new franchise agreement in Bulgaria, having rapidly established two stores in the country capital, Sofia.

The most recent country having a Parfois store is the Philippines where the company established their first store in June 2010, also under a franchise agreement with a local partner[12]. This is the truly first Asian country to have a Parfois franchise, showing the company capability and growing brand strength worldwide. Figure 1 evidences the international presence of Parfois.

Figure 1: International Parfois presence



Source: Based on Parfois information

In this long success story, there was also a difficult moment with one of Parfois franchisees. In Russia, the first Parfois partner had important divergences with the company over the first years, by not following the expansion agreed between the parts, but also over payment issues, which led to a contract cancelation and stores closure in the country. Although this situation the Parfois concept shown particular strength, been able to get another partner in the region, which allowed the company to comeback to Russian market.

[12] http://diariodigital.sapo.pt/dinheiro_digital/news.asp?id_news=140304 accessed in July 9th 2010 18:50.

This is one of the risks of partner selection, assumed by a franchisor. Parfois is changing the franchisee selection, being now more selective in the partner selection, having in distant countries only agreements with well established companies, over the particular franchisees that have in Portugal.

In summary, Parfois engaged in a multi-strategy entry method in different countries, supporting the observation made by Lessassy and Jolibert (2007) in their study of 25 food-retailers. As they concluded the strategy vary according to factors as the geographic, cultural or the financial capability. In the Parfois case we are able to observe the geographic and cultural patterns for own stores strategy taken only in European countries, with higher proximity in these two factors. The financial factor is also critic to the extent of the own strategy, over the franchise stores.

During the first experience years, Parfois only invested in close countries markets, both geographical and psychic, such as Spain and France, with own stores, having more recently also opened stores in the more distant Poland. The experience curve advocated by Eroglu, (1992) seems to be applicable in this Parfois case. The other vector is based on franchise, where countries attractiveness is not so important, if you have the right partner. As Bai and Tao (2008) affirm the risk and investment in franchise business is quite smaller. The risk to lose the market is also intangible due to the fact that these countries are non preferential, but if successes it can be a trigger to other countries or regions as well as been seen as a successful store model.

In the franchise vector we are able to distinguish two main regions where franchise is predominant in Parfois case, but also in other companies' strategy, as identified by Welsh et al (2006) – the Middle East and the East Europe. These are two world regions where companies usually do not tend to enter with own stores. The markets with lower political and economic stability as well a great cultural gap, different consumption patterns, difficult laws and language are not the preferential markets, and companies tend to enter through franchise agreements or joint-ventures. This way it is necessary to local investors to bring international fashion brands to these countries, where the fashion is increasingly important, and where people have greater financial capability. This is a franchise potentate.

As we can observe in the Figure 1, there's a clear pattern in the internationalization process of Parfois. Showing that the company is willing to open own stores in the European market, where they feel comfortable, letting partners to assume the investment risk in other world regions, with particular relevance for the Middle East and Eastern Europe, regions with aggressive market growing in the last years, due to the increasingly openness to the "Occidental world", and to their brands and companies.

Regarding the progress in the international presence of Parfois, Figure 2 synthesises this progress.

Figure 2: International countries progress

	2003	2004	2005	2006	2007	2008	2009	2010	Own stores	Franchise
Spain	■	■	■	■	■	■	■	■	11	1
Saudi Arabia	■	■	■	■	■	■	■	■		17
UAE		■	■	■	■	■	■	■		4
Kuwait		■	■	■	■	■	■	■		1
Canarias			■	■	■	■	■	■		3
France			■	■	■	■	■	■	2	
Kazakhstan					■	■	■	■		2
Latvia					■	■	■	■		1
Romania					■	■	■	■		4
Russia					■	■	■	■		3
Ukraine					■	■	■	■		4
Jordan					■	■	■	■		2
Oman					■	■	■	■		2
Angola					■	■	■	■		2
Mozambique						■	■	■		1
Croatia							■	■		1
Bahrain							■	■		1
Egypt							■	■		2
Poland							■	■	8	
Bulgaria								■		2
Philippines								■		1

Source: Based on Parfois information

Figure 2 helps us to identify the fast international expansion obtain by Parfois. It is impressive how a small company, from a highly depress European region was able to grow, not only in the number of stores, but also in the number of countries where the company is present and where it sells their products, through stores.

Based on Parfois case study, I was able to identify that the economic cycles did not affected the company internationalization process, being able to grow even in the actual, difficult world economic situation. It is also clear that the option for franchising is not only based on financial capability, but also has an important contribute from the Where factor, because it is clear that Parfois has a different approach to different market regions. Both the proximity and the partner were, to Parfois, clearly two main drivers to choose countries and the entry strategy.

We can then identify four main factors that led Parfois internationalization path over the last 10 years. The Company size seems to be the most important organizational factor to the internationalization process. Due to the small dimension of the company, it was agile enough to be able to adapt to new countries rapidly. This factor is correlated with one motivational factor, the management interest in this entire process. Smaller companies, tend to have a leading manager, which leads the company to a determined path, in this case to the fast internationalization path, with shorter analysis period.

We can also identify two main external factors. The third party contacts were one of the Parfois main drivers to proceed with the internationalization process, particularly in distant markets. The final factor, the environmental one, is clearly the geographic and cultural distance between the company Portuguese base and the other countries where it is now present, with the already analyzed differences of entry strategy.

4. Conclusion

As section 3 highlights, Parfois is a successful fashion accessories specialist that in a short period of time (less than 20 years) was able to expand rapidly worldwide.

In our analysis of Parfois case study we have focused on the internationalization of the firm, particularly on the entry mode adopted, with particular emphasis on franchising. We conclude that this mode of entry was adopted in markets with lower political and economic stability as well a great cultural gap, different consumption patterns, difficult laws and language, where it is more risky to enter with own stores. This is in agreement with the theoretical literature.

We can also observe the natural path for internationalization of companies, starting with psychic and geographically close markets with high commitment, and in markets with lower proximity, as advocated by Johanson and Wiedersheim-Paul (1975)**,** the commitment level was much lower, and the company took the franchise path.

It is also clear, by the Parfois analysis, that nowadays companies, in order to grow rapidly, increasing their notoriety and incurring in economies of scale, tend to expand through different ways, being the franchise one of the important possible paths. This was actually the only way, for a small company, in a small market, with limited resources to grow worldwide, enabling it to be a global player, with large influence. In this scenario finding selecting the correct partner is one of the most important missions, in order to succeed in foreign markets, and when the company cannot control the entire process.

5. Limitations and future analysis

As any study case all the conclusions we do obtain from the case are exclusive for this company. It is also possible that all the decisions taken by the company were completely fortuitous, and may be mostly influenced by third parties and not by the company or its strategy.

It would be really interesting and opportune to study some other Portuguese companies also present in the same world regions, in order to understand if there is any similarity with the path taken by Parfois in its internationalization. It would be also important to do an analysis to other companies, from other countries, in the same activity, and compare it to Parfois, and some other companies, trying to find any common link in the internationalization of those companies.

To further understand the success of Parfois, it would be also interesting to study the relationship between the company and its partners, across the world, the cultural adjustments, and way of dealing with different cultures and people. It may also be one factor of success on a franchise agreement.

Appendix 1

When and where was the company first international experience? And what of the internationalization options was used? Franchising, joint venture, organic growth?

When was the first franchising experience, and if it was abroad or in the company's domestic market.

In how many countries is the company present and in which of them are using franchising?

Which are the main advantages perceived by companies of the franchising, and which are the main identified risks found in this option.

If is there any specific markets where companies don't invest, preferring the franchising options. Is there an economic, demographic criterion? Is the political risk important?

Did the company decide to franchise, or was a third part that approached the company with a project and a concrete proposal?

What's the company ratio in terms of national-foreign revenues, and the percentage of franchisees on the total revenues of the company?

What was the most important factor for the internationalization process?

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