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Multi-Sectoral Analysis of Strategic Groups in Franchising: A Study in Italy

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ABSTRACT

Franchising is a commercial form which enables firms to successfully penetrate the market and expand in an environment of growing global competitiveness. This form of business is present in many different activities and sectors, having its own characteristics and structures and significant differences among firms. It is therefore important to identify possible homogeneous groups of franchisors which share the same business strategies. This work is centred on the system of franchises in Italy. The figures about the high number of franchisors and franchised establishments, the quantity of chains operating over many years and the high penetration in the different sectors mean that franchising in Italy has a high degree of competitiveness and maturity. All this, along with the scarcity of studies about strategic groups in franchising in Italy, justifies this study. Specifically, the objectives are: 1) to identify the possible existence of strategic groups in Italys franchising system; 2) to carry out a multisectoral analysis of strategic groups to determine whether the same strategic groups exist in the different franchising sectors; and 3) to characterise the different strategic groups and show their most significant variables. The results indicate that the most numerous strategic group is made up of chains which fully trust the domestic market, so the majority have not undertaken a strategy of internationalisation. On the other hand, the least numerous strategic group is composed of chains which have grown rapidly. This reaffirms the degree of saturation of the franchising market in Italy, as there is a great number of brands but few franchised establishments. The results attained in this work allow an understanding of the keys to the success of franchises in the Italian market for the franchisors to be able to maintain their position or, contrariwise, make changes and reposition themselves.

Keywords: Strategic group; franchising; operational variables; principal component analysis; Italy.
JEL classification: M31; L29.
MSC2010: 62H25; 91C99.

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Análisis multisectorial de grupos estratégicos en franquicias: un estudio en Italia

RESUMEN

La franquicia es una forma comercial que permite a las empresas penetrar con éxito en el mercado y expandirse en un entorno de creciente competitividad global. Esta forma de negocio está presente en muchas actividades y sectores diferentes, con sus propias características y estructuras y diferencias significativas entre las empresas. Por lo tanto, es importante identificar posibles grupos homogéneos de franquiciadores que compartan las mismas estrategias comerciales. Este trabajo se centra en el sistema de franquicias en Italia. Las cifras sobre el alto número de franquiciadores y establecimientos franquiciados, la cantidad de cadenas que operan a lo largo de muchos años y la alta penetración en los diferentes sectores hacen que las franquicias en Italia tengan un alto grado de competitividad y madurez. Todo esto, junto con la escasez de estudios sobre grupos estratégicos en franquicias en Italia, justifica este estudio. Específicamente, los objetivos son: 1) identificar la posible existencia de grupos estratégicos en el sistema de franquicias de Italia; 2) llevar a cabo un análisis multisectorial de grupos estratégicos para determinar si existen los mismos grupos estratégicos en los diferentes sectores de franquicias; y 3) caracterizar los diferentes grupos estratégicos y mostrar sus variables más significativas. Los resultados indican que el grupo estratégico más numeroso está compuesto por cadenas que confían plenamente en el mercado interno, por lo que la mayoría no ha emprendido una estrategia de internacionalización. Por otro lado, el grupo estratégico menos numeroso está compuesto por cadenas que han crecido rápidamente. Esto reafirma el grado de saturación del mercado de franquicias en Italia, ya que hay un gran número de marcas pero pocos establecimientos franquiciados. Los resultados obtenidos en este trabajo permiten comprender las claves del éxito de las franquicias en el mercado italiano para que los franquiciadores puedan mantener su posición o, por el contrario, realizar cambios y reposicionarse.

Palabras claves: grupo estratégico; franquicia; variables operacionales; análisis de componentes principales; Italia.
Clasificación JEL: M31; L29.
MSC2010: 62H25; 91C99.

1. Introduction.

Franchising is a business agreement in which a firm (the franchisor) obtains a series of initial and periodic payments in exchange for allowing other firms (the franchisees) to offer their products and services under the same brand name and using their procedures (Combs et al., 2011). There is no doubt that franchising is a form of competitive strategy that enables firms to successfully penetrate the market and expand in an environment of growing global competitiveness.

Franchising is very important for the economies of many countries and attains very high levels. For example, during the last five years franchising in the USA has grown more strongly than other businesses. The annual sales in 2014 grew 5.4% with respect to the previous year, reaching $890 billion. In 2014 the number of franchise outlets will increase by 12,209, or 1.6 percent, to 781,991 (IFA, 2015). Likewise, although employment growth has been subdued, growth remains high in the franchising sector. Indeed, franchising currently provides 8.8 million people with direct employment in the USA. In Italy, there were 941 brand names in 2014. This meant a total of 49,773 franchised establishments, providing a turnover of 23,221 million euros (Assofranchising Italia, 2015).

Franchising research has increased considerably in the past few years. However, the validity of many works can be put into question due to the heterogeneity of the data of their samples, which can limit the applicability of their results (Johnson & Alon, 2006). It must be taken into account that franchising is present in many different activities and sectors, having its own characteristics and structures and significant differences among firms. The selection of these important characteristics and structures make it possible to identify groups of firms which adopt more or less similar approaches to compete in the same sector. In this sense, the choice of a business strategy is very important for franchisors if they want to prosper in the sector. Business strategy refers to where and how the firm is competing in a particular industry or market (Grant, 2010).

It is therefore valuable to identify strategic groups in franchising. That is to say, possible homogeneous groups of franchisors that share the same business strategies.

Hatten and Hatten (1987) recognise that strategic groups may be a potentially powerful tool of strategic analysis which is useful to characterise firms, to value the efficacy of the strategic activities of numerous competing firms (beyond what the analysis of an individual firm allows), to summarise information and to spotlight key dimensions.

The first definition of a strategic group was proposed by Hunt (1972) when introducing this concept to refer to groups of firms which, within the same industry, develop similar behaviours across a series of key strategic dimensions. There are many strategies that a firm can follow to compete in the market and these may vary over time. Compared to a tactical decision, a strategic decision is characterised by its greater time scope, as it is implemented in the long term.

The identifying and analysis of strategic groups has been carried out in many industries, and franchising has not been alien to this type of studies. Carney and Gedajlovic (1991) were the first to apply this analysis in this sector. These authors identified five strategic groups based on thirteen operational variables grouped into seven strategic dimensions. New works on strategic groups in franchising appeared later (Castrogiovanni et al., 1995; López & Ventura, 2001; Inma & Debowski, 2006; Johnson & Alon, 2006; Navarro et al., 2006; Rondán et al., 2007). Two fundamental aspects can be highlighted from a thorough review of these works. On the one hand, the strategic groups identified do not totally coincide among the different studies, as there are differences in the configuration of the groups. On the other hand, it must be pointed out that in spite of franchising being spread across a great many countries of the five continents, this type of analysis has been carried out in few countries (Canada, the USA, Spain, Australia and Portugal). Castrogiovanni et al. (1995) propose doing more of this kind of research in different countries. Also, Garcia Lopes et al.

(2010) state that the study of strategies in franchising is relevant and enriching for the market.

This work thus contributes to the identification and analysis of strategic groups in franchising in Italy. This country's franchising system is significantly mature and this kind of study has not been carried out there. Data of the Italian Franchising Association (Assofranchising Italia, 2015) from the end of 2014 were used.

In general, this work's main aim is to analyse the existence of strategic groups in franchising. Specifically, the objectives are: 1) to identify the possible existence of strategic groups in Italy's franchising system; 2) to carry out a multisectoral analysis of strategic groups to determine whether the same strategic groups exist in the different franchising sectors; and 3) to characterise the different strategic groups and show their most significant variables.

Likewise, given that there is a significant gap between the data used in previous studies and those which this work has employed, the results obtained can be compared with those in the previous literature to determine if the strategic groups remain stable over time.

The fact that firms need to determine the factors of success justify carrying out this work. To do so enables firms to identify the activities where they must centre their marketing efforts to maintain or improve their competitive positioning.

This work is structured as follows. The general usefulness and applicability of strategic groups is tackled in the next section. Then the literature concerning strategic groups in franchising is reviewed. After this, there is a presentation of the methodology used. Next, the most significant results are commented on. Finally, the most important conclusions are presented, along with the work's limitations and future research lines.

2. Usefulness and applicability of strategic groups.

Strategic planning is one of the pillars of an efficient administration of firms. There is no a single and definite definition of strategy (Mainardes et al., 2014). Kotler's description is one of the most accepted definitions of strategy (Kotler, 2002). He defined strategy as a general process to attain and maintain a viable congruity between the organisation's aims, skills and resources in order to take advantage of the opportunities which the market offers. Strategy is hence a global plan of the firm to deploy resources and capacities with which to establish a favourable position in the market. The most important resources and capacities are characterised as being long-lasting, difficult to identify, not easy to replicate and controlled by the firm (Grant, 1991).

For the strategy to be successful the firm has to carry out an effective implementation. To do so, it is necessary to define the long-term strategy and, according to the objectives, the competitive atmosphere must be understood and an objective assessment of the resources used has to be done (Grant, 1991).

Over the years, the analysis of strategic groups has become popular as a technique of analysis and strategic thinking. This growth has been encouraged by numerous authors who have attributed a broad range of benefits to this kind of analysis (Revuelto & Fernández, 2009). This type of analysis simplifies an industry's heterogeneity, as it allows a global idea of the sector to be obtained (Carroll et al., 1992) and identifies the differentiating features of distinct competitive behaviours (Hatten & Hatten, 1987). It also facilitates the study of competitiveness as it permits managers to prioritise their attention on the strategic movements of their closest competitors (Cool & Schendel, 1987).

This sort of analysis is also useful in that it furthers the analysis of the strengths and weaknesses of the firms of each strategic group (Aaker, 1988), as well as the threats and opportunities of the environment

which may influence them (Harrigan, 1985). All this forecasts the intensity with which firms can be affected by important changes in the environment. This analysis also lets firms discover new market niches.

Finally, it is necessary to show that this type of analysis explains the differences in the competitive behaviour of firms which are in the same industry through the study of each group's strategic dimensions (Peteraf & Shanley, 1997).

In any case, the identification of strategic groups requires two necessary and complementary conditions to be met (Nath & Gruca, 1997; Rondán et al., 2007):

- The variables or dimensions that define the strategy are really strategic and, as a result, cannot be modified in the short term. Modifying them would mean incurring high costs in the form of greater investments in both tangible resources (monetary, human, etc.) and intangible resources (learning, know-how, and so forth). When this is not the case, it is difficult for us to identify strategic groups within a sector, despite the results of using certain statistical techniques (factor analysis, cluster analysis, etc.) being able to indicate them (Nath & Sudharshan, 1994).
- The difficulty of modifying in a short period of time the variables that define business strategies must create among the different strategic groups mobility barriers which prevent or hinder the movement of firms from one group to another. Their main characteristic is that they are long lasting. That is to say, they are a source of competitive advantage for those members of the group which have them and they cannot be quickly obtained by those who make up other groups (Barroso et al., 2001).

To identify strategic groups, it is necessary to previously determine the characteristics which are appropriate to classify the franchisors into the different groups (Combs et al., 2004). To do so, it is fitting to examine two theories that aim to justify the reasons why a firm adopts a franchising system in order to operate: agency theory and resource scarcity theory (Combs & Ketchen, 2003). Each theory is made up of a different set of factors and is also dealt with separately in the literature (Carney & Gedajlovic, 1991).

According to agency theory, an agency relation exists when one party (the principal) delegates authority to a second party (the agent). In the case of franchising, the franchisor delegates the work to a franchisee through a contract. This is a classic case of an agency relationship, as there is a relationship between a chain's headquarters managers and a hired outlet supervisor (Garg et al., 2005). This theory is conceived as an intellectual framework. This is reflected in a contract which is ideal to obtain the agents' maximum performance when the principal cannot easily measure their performance and when the principal and the agent have different levels of tolerating risks.

Franchising encourages the franchisees to maximise their efforts as they must allocate their capital to open and manage their outlets (Brickley & Dark, 1987). Consequently, franchisors have less need to directly control their franchised outlets (Bradach, 1997), which is important due to the cost that control entails. Given that the parties normally have different aims, the principal must control the behaviour of the agents or offer them strong incentives in order for them to act in line with the principal's best interests.

Another theory which supports franchising is that of resource scarcity. On the basis of this theory it can be supposed that a firm adopts franchising due to not having the resources needed to grow through their own units (Díez & Rondán, 2004). According to this theory, the franchisees provide the franchisor with intellectual resources or financial resources or both (Ketchen et al., 2006). The increase of intellectual resources is important for the franchisors as this makes the chain grow and have well-managed units. The franchisors need financial capital in order to grow and this financial capital can be provided by the franchisees at a very low cost.

Overall, according to this theory, firms attain higher economic benefits because of disposing of distinctive or "special" resources and capacities. These resources can be a technical team, brand names and capital. The distinctive capacities refer to some firms counting on a specific know-how, having an appropriate capacity of organisation and management, dominating a specific technology, having efficient

procedures and, in general, knowing how to do specific things better than their competitors. According to this approach, the source of sustainable competitive advantage is their resources and, especially, their capacities (López & Ventura, 2001). In this way, a franchisor can achieve greater benefits if it has resources, such as a network of appropriate establishments via a suitable location of the franchised premises and capital coming from the fees established with the franchisees. Likewise, the franchisor must have a series of "special" capacities, such as dominating a specific technology, the capacity to appropriately train their franchisees and, in short, an ability to establish long-lasting and stable relations.

3. Strategic groups in franchising.

A great many works about the identifying and analysis of strategic groups applied to a broad variety of sectors can be found in the literature (Rondán et al., 2007; Rondán et al., 2010). Consequently, according to these authors, resource scarcity is a good reason to grow in franchising but not the only one. The application of strategic groups is to be seen in sectors as varied as banking, the retail trade, the construction, pharmaceutical and insurance sectors, etc.

Although strategic groups have been identified in different contexts of activity, Carney and Gedajlovic (1991) were the first to apply them to franchising. To do so, they used a sample of 128 Canadian franchisors which operated in Quebec in 1988. They measured 13 operational variables,grouped into 7 strategic dimensions. With these variables they identified five types of strategies that franchisors followed. This can be translated into five types of franchisors (Table 1).

Table 1: Franchisors' Strategic types by Carney and Gedajlovic (1991).

Strategy	Characteristics
Rapid Growers	• Their strategy is characterised by seeking rapid growth, carrying out a high number of yearly openings, both of franchised units and their own units. • They are young franchises (low seniority). • They have immediately adopted the franchising system.
Expensive conservatives	• High cost of adhesion. • They are expensive franchises, as the values of the initial investment, the entry fees and the advertising fees required are the highest found among all the groups. • They are conservative franchisors due to their contracts being the longest in the groups studied.
Converters	• The firms included in this group have the highest seniority. • They have developed a multichain strategy (own units) over a long time and have recently adopted franchising as a growth strategy. • They have grown slowly during the multichain period and much more quickly after expanding into franchising.
Mature franchisors	• They are the group of franchisors which have been longest in the franchising system. • Their seniority is high, although few years have passed since they began to adopt franchising in the sector. • They are franchising chains which have a greater number of outlets.
Unsucessfulsfranchising	• This group is the second youngest. • They swiftly adopt the franchising system as a growth strategy. • They have few of their own outlets. Their expansion is mainly through, which means that the percentage of franchised units is the highest in the groups considered. • It is the group which demands lowest fees, having very few adhesion requirements. However, their growth is low.

Source: Rondán *et al.* (2006)

It can be noted that each strategic group has its own characteristics which mark how it acts in the market. For example, the rapid growth franchisors are those chains which have attained a high number of yearly openings, both of franchised outlets and their own outlets. They tend to be young franchises which have immediately adopted the franchising system.

Since the initial work of Carney and Gedajlovic (1991), other studies have appeared with the basic aim of identifying strategic groups in franchising but there have been differences both in the results obtained and in the countries of application. These works are summarised in Table 2.

Table 2: Identification of strategic groups in franchising.

Author	Country	Sample	Methodology	Strategic Groups Identified
Carney and Gedajlovic (1991)	Canada	128 franchisors	Principal Component Analysis	• Rapid Growers • Expensive conservatives • Converters • Mature Franchisors • Unsuccessfuls
Castrogiovanni, Bennett and Combs (1995)	USA	717 franchisors	Principal Component Analysis	They looked for franchisor types in the USA, confirming some of the groups of Carney and Gedajlovic (1991). The other groups are different.
López and Ventura (2001)	Spain	228 franchisors	Principal Component Analysis	• Emergent franchisors • Standardised franchisors • Traditional franchisors • International franchisors • Unsatisfactory
Inma and Debowski (2006)	Australia	91 franchisors	Cluster analysis	• Beginners • Developing franchisors • Expansion franchisors • Mature franchisors
Johnson and Alon (2006)	USA	261 franchisors	Cluster analysis	• Confederation form organisations • Carbon copy form organisations • Entrepreneurial form organisations
Navarro, Díez and Rondán (2006)	Portugal	128 franchisors	Principal Component Analysis	• Large and expensive franchisors, with a long contract • Highly experienced franchisors (consolidated) • Franchisors with high confidence in franchising • Mature and domestic franchisors • Franchisors with royalties
Rondán, Navarro and Díez (2007)	Spain	140 franchisors	Principal Component Analysis	• Expensive Conservatives • Converters • Mature • Rapid Growers

Source: Rondán et al. (2010)

A second study which deals with the topic of strategic groups in franchising was that of Castrogiovanni *et al.* (1995). These authors used a series of variables and measures that were very similar to those employed by Carney and Gedajlovic (1991), with a sample of 717 franchisors corresponding to 28 sectors of the USA. The results of Castrogiovanni *et al.* (1995) totally confirmed the strategies of "rapid growth franchisors" and "converters" and only partially – as this was not clearly noted - validated the strategy of "mature franchisors". Nevertheless, the other two strategic groups ("expensive conservatives" and "unsuccessfuls") were not corroborated.

The results of the rest of the studies are similar to those of these first two works. That is to say, the configuration of groups obtained does not correspond exactly among the different investigations. All this leads to the proposal of this work's first hypothesis:

H1: *In the Italian franchising system there are different types or strategic groups of franchisors.*

Franchising is a kind of business which is applicable to very varied activities. This means that the franchising system is made up of different sectors with their own, unique characteristics. So, within each sector specific strategic groups can be identified whose nature varies according to the sector (Rondán et al., 2007). The causes of these changes in the composition of the groups can be due to external factors (environment) or internal factors (changes in strategic behaviours). Based on this argument, this work's second hypothesis is posited:

H2: *There are different strategic groups within each franchising sector in Italy.*

In brief, in view of the results obtained in these works there is a need for further research into the identifying and analysis of strategic groups in franchising. Additionally, to the best of our knowledge there are no works on the franchising market in Italy though franchising is firmly consolidated there.

4. Methodology.

This work has used a database provided by the Italian Franchising Association and by the Permanent Observatory on Franchising in Italy (OPF), made up of 942 chains. The data were obtained in the first months of 2015 and refer to the end of 2014.

The Italian Franchising Association and the Permanent Observatory on Italian Franchising annually publish a report on franchising in Italy based on the analysis of a yearly database of franchising data. The 2014 report noted a weak growth in the data following a long period of recession due to the economic crisis of the last few years. The annual database is an important asset of data and information which can be used to better understand the phenomenon of the evolution of franchising in Italy. The data gathering is carried out rigorously, following some of the following sources: 1) a questionnaire completed directly by the franchisor; 2) a questionnaire filled out by telephone via an interviewer; and 3) a questionnaire done from the data collection from the franchisor's official website when the franchisor had not sent all the data.

Databases have been frequently used in studies on franchising (Alon, 2001). Although including the data of franchisors in the bases is voluntary, many researchers point out that significant biases do not exist (Shane, 1996; Combs & Castrogiovanni, 1994), given the rigorous criteria for including the data of the franchisors and the fact that the yearbooks are validated by over 80% of the data.

Based on the information of the database, 13 indicators which define different strategic dimensions have been used in this work (Table 3). These strategic dimensions and operational variables have been adopted in the literature for the analysis of strategic groups in franchising (Carney & Gedajlovic, 1991; Castrogiovanni et al., 1995; López & Ventura, 2001; Navarro et al., 2006; Rondán et al., 2010). It is important to note that most of these aspects have been used by resource scarcity theory and agency theory, two of the main theoretical approaches in franchising research (Melo et al., 2015).

Table 3: Strategic dimensions and operational variables.

Strategic Dimensions	Operational Variables
A. Size	01. Number of outlets of the chain in the world 02. Number of outlets of the chain in Italy
B. Dispersion	03. Percentage of outlets in Italy of the total units 04. Minimum population required
C. Growth/Internationalisation	05. Franchised units in Italy opened per year (franchised units in Italy / years franchising).
	06. Franchised units outside Italy opened per year (franchised units outside Italy / years franchising).
D. Cost of adhesion (price of franchising)	07.Average investment that the candidate needs to be a franchisee.
	08.Entry Fee
	09. Royalty[a] (% monthly percentage of sales).
	10.Minimum surface of the premises (square metres).
E. Contract	11. Contract length[b] (years).
F. Vertical integration	12. Confidence in franchising (franchised units / total units).
G. Timing	13. Years franchising

[a]Following Rondán et al. (2006), the percentage of this quantity of total billing forecasted for the first year has been calculated to change the royalties, which are a fixed quantity, into percentages.
[b]Those chains which have an open-ended contract have been assigned with the most frequent value: 5 years.
Source: own elaboration based on the previous literature

Despite there being 942 chains in Italy, at the end of 2014 complete information could only be obtained from 360 chains – meaning 38.2%. However, given the rigorous procedure for getting the data from the database, we preferred to work with this percentage of reliable and real data instead of using a higher percentage which would have estimated data. To analyse the data a principal component factor analysis was carried out.

5. Results.

This work applied factor analysis to obtain the strategic groups. One of the requirements which the data must fulfil to be able to use factor analysis is for the variables to be highly correlated. This is why there tends to be a use of the KMO (Kaiser-Meyer-Olkin) index and Bartlett's sphericity test. As the KMO value was 0.553, the decision to apply a factor analysis is acceptable[1]. Additionally, the p-value of Bartlett's sphericity test rejects the null hypothesis that the correlation matrix is an identity. Hence, it can be stated that the idea of applying a factor analysis is appropriate.

Having seen that it is feasible to apply factor analysis, the factors were extracted. To do so, the principal component extraction method was employed. To determine the number of factors, the own value criterion (the Kaiser test) was followed. The results showed that 5 components were extracted, explaining 72.31% of the total variance.

The varimax rotation method was used to facilitate the interpretation of the factors. Table 4 shows the factor loadings that enable us to interpret the components selected.

[1] The KMO measures the sampling adequacy (which determines if the responses given with the sample are adequate or not) which should be over 0.5 for a satisfactory factor analysis to proceed. Kaiser (1974) recommends 0.5 (value for KMO) as a minimum (barely accepted), values between 0.7-0.8 acceptable, and values above 0.9 are superb. Looking at the results, the KMO measure is 0.553, which is close to 0.5 and therefore can be barely accepted.

Table 4: Rotated component matrix[a].

	Component				
	1	2	3	4	5
01 Number of outlets of the chain in the world	**0.9021**	-0.3163	-0.0216	0.1853	-0.0285
02 Number of outlets of the chain in Italy	**0.9231**	-0.0767	-0.0706	0.2554	-0.0141
03 Percentage of outlets in Italy of the total units	-0.0230	**0.9030**	-0.0193	0.0307	0.0407
04 Minimum population required	-0.1366	-0.0352	0.3810	0.0592	**0.7676**
05 Franchised units in Italy opened per year	**0.8371**	0.1263	0.0168	-0.1878	-0.1083
06 Franchised units outside Italy opened per year	0.3960	**-0.7826**	0.0829	-0.1106	-0.0747
07 Average investment that the candidate needs to be a franchisee	0.0659	-0.0370	0.3896	**0.7218**	-0.0573
08 Entry fee	-0.0655	-0.0098	**0.7536**	0.1919	0.0988
09 Royalty	0.0096	0.0014	**0.7759**	-0.0648	0.0597
10 Minimum surface of the premises	0.0055	-0.0094	0.0181	**0.8039**	-0.0724
11 Contract length	-0.0265	-0.0171	0.5293	0.1838	**-0.5849**
12 Confidence in franchising	0.0984	**0.7341**	0.0732	-0.3250	-0.1803
13 Years franchising	0.3770	-0.1121	-0.1103	**0.5070**	0.2282

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalisation.
[a]Rotation converged in 5, 9 and 6 iterations.
Source: own elaboration

Table 4 shows that the first component is related with the number of the chain's outlets, both in Italy and in the world, as well as the number of franchised units opened per year. The second component is connected with the percentage of shops located in Italy of the total of the chain, negatively with the franchised units opened outside Italy per year and having confidence in the franchise. The third and fourth components are related to the costs of adhesion to the franchise (investment, entry fee, royalties, the premises' minimum surface). Finally, the fifth component is connected with some possible entry barriers, such as the minimum population to be able to join the chain, as well as the short length of the contract.

Given that the data did not uphold the hypothesis of normality, the Kruskal-Wallis test was used to determine if there are significant differences between the different groups. The results showed significant differences between the groups for operational variables. For that reason, in view of all the previous results it can be deduced that there are various strategic groups in franchising in Italy. This confirms H1.

Following the methodology of Rondán et al. (2010), once the groups have been identified, to correctly interpret them each franchisor was classified into each one of the groups, based on the highest factor score attained in the resulting factors. Moreover, the number of chains that makes up each group was obtained, as well as the average value in each group (Table 5). It can be seen that what most predominates in franchising in Italy are the chains belonging to strategic group 2, followed by those which belong to group 5.

Table 5: Size of each strategic group and average of operational variables.

	Operational variables	Group 1	Group 2	Group 3	Group 4	Group 5	Total
01	Number of outlets of the chain in the world	**352.86**	33.51	40.97	125.59	47.58	90.03
02	Number of outlets of the chain in Italy	**288.93**	33.15	31.59	109.48	43.00	77.32
03	Percentage of outlets in Italy of the total units	89.01	**99.08**	87.84	89.92	92.36	93.28
04	Minimum population required	25,988.37	25,169.23	50,344.83	34,008.93	**76,130.14**	41,031.94
05	Franchised units in Italy opened per year	**17.89**	3.78	2.54	2.99	2.46	4.88
06	Franchised units outside Italy opened per year	3.28	**0.04**	0.92	0.77	0.36	0.75
07	Average investment that the candidate needs to be a franchisee	57,113.95	33,809.62	124,077.59	**201,712.50**	46,991.30	79,927.54
08	Entry fee	3,516.28	4,416.54	**22,118.88**	5,542.86	4,617.12	7,376.93
09	Royalty	0.94	0.44	**4.79**	0.78	0.69	1.30
10	Minimum surface of the premises	69.47	75.71	115.66	**365.36**	75.17	126.35
11	Contract length	4.77	4.87	6.76	5.61	**4.04**	5.11
12	Confidence in franchising	79.80	**91.88**	71.17	57.36	63.81	76.04
13	Years franchising	15.42	9.62	9.69	**17.73**	13.23	12.32
14	Size of each group	43 (11.94%)	130(36.11%)	58(16.11%)	56(15.56%)	73(20.28%)	360

Source: own elaboration

A factor analysis was applied to the data of each sector in order to check if there are also different strategic groups among the different sectors. Although the Italian Franchising Association has data disaggregated into seven sectors, in this work the franchisors were grouped into three large sectors in order to have groups with a high sample size: products for people and homes, business and services. Once the KMO index values and Bartlett's sphericity test showed the suitability of being able to apply a factor analysis and after applying a varimax rotation, the factors which appear in Table 6 were obtained. In this table it can be seen that there are different strategic groups by sector, though there are notable differences in the configuration of each group. Based on these results, it can be stated that this study's hypothesis H2 has been verified.

Table 6: Rotated component matrix by sectors[b].

Accessories for people and house		Trade		Service	
Factor 1	**Factor loadings**	**Factor 1**	**Factor loadings**	**Factor 1**	**Factor loadings**
01. Number of outlets of the chain in the world	0.945	01 Number of outlets of the chain in the world	0.899	01 Number of outlets of the chain in the world	0.850
02 Number of outlets of the chain in Italy	0.966	02 Number of outlets of the chain in Italy	0.909	02 Number of outlets of the chain in Italy	0.937
05 Franchised units in Italy opened per year	0.889	05 Franchised units in Italy opened per year	0.711	05 Franchised units in Italy opened per year	0.900
06 Franchised units outside Italy opened per year	0.696	13 Years franchising	0.570		
Factor 2		**Factor 2**		**Factor 2**	
03 Percentage of outlets in Italy of the total units	-0.675	07 Average investment that the candidate needs to be a franchisee	0.839	03 Percentage of outlets in Italy of the total units	0.897
07 Average investment that the candidate needs to be a franchisee	0.787	10 Minimum surface of the place	0.833	06 Franchised units outside Italy opened per year	-0.822
10 Minimum surface of the place	0.598	12 Confidence in franchising	-0.630	12 Confidence in franchising	0.804
12 Confidence in franchising	-0.680				
13 Years franchising	0.572				
Factor 3		**Factor 3**		**Factor 3**	
08 Entry fee	0.595	03 Percentage of outlets in Italy of the total units	0.896	04 Minimum population required	0.691
09 Royalty	0.781	06 Franchised units out of Italy opened per year	-0.848	08 Entry fee	0.636
				09 Royalty	0.782
Factor 4		**Factor 4**		**Factor 4**	
04 Minimum population required	-0.636	08 Entry fee	0.558	07 Average investment that the candidate needs to be a franchisee	0.686
11 Contract length	0.732	09 Royalty	0.819	10 Minimum surface of the place	0.873
		11 Contract length	0.808		
Factor 5		**Factor 5**		**Factor 5**	
		04 Minimum population required	0.788	11 Contract length	0.564
				13 Years franchising	0.796

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalisation.
[b]Rotation converged in 5, 9 and 6 iterations.
Source: own elaboration

6. Conclusions, limitations and future research.

This work contributes to the literature on strategic groups in franchising. Two general conclusions can be drawn from the results. On the one hand, in the franchising system in Italy there are different strategic groups which behave similarly over a series of key strategic variables. On the other hand, in the

franchising sectors in Italy there are also different types of franchisors according to the strategy that they follow. This means that franchisors in Italy are heterogeneous. Each strategic group is made up of a series of operational strategic variables which makes it different from the rest of the strategic groups.

Specifically, in franchising in Italy we find five strategic groups:

- Strategic group 1. This group can be called "rapid growth franchisors", as it is very similar to that which exists in some works in the previous literature (Carney & Gedajlovic, 1991; Castrogiovanni et al., 1995; Rondán et al., 2007). It is the smallest group (11.94%). They are franchises with a high number of outlets opened per year, which allows them to have a great number of outlets both in Italy and in the rest of the world. They are franchises which have been in franchising for a long time, but their strategy has been to grow in franchising. With the aim of attracting potential franchisees, they have low entry fees and royalties in comparison to other groups. They also stand out for being franchisors which have used an internationalisation strategy, as it is the group which has the greatest number of franchised outlets outside Italy.

- Strategic group 2. This is the largest group (36.11%). These are firms that have a small number of outlets but which have a high percentage of franchised outlets of the total of outlets. Furthermore, it is the group with the lowest level of internationalisation. Therefore they are firms which have a great confidence in franchising at the domestic level. To stand out in the national market they specify a low investment for the opening of an outlet, as well as the lowest royalties of all the groups. The franchisors in this group do not correspond totally with any of those in the previous literature, although they partially coincide with the franchises centred on the domestic market in Portugal found by Navarro et al. (2006). In the case of Italy they can be called "domestic franchises". Having a high number of franchised establishments, this group can also partially coincide with that identified by Combs et al. (2004), called resource scarce franchisors, characterised by making an intense use of the franchise to obtain knowledge of the market and to decrease the agency costs associated with the opening of new establishments.

- Strategic group 3. These are franchisors which demand very high economic conditions (entrance fee and royalties), which is why they can be called "expensive franchisors", the same as the denomination that exists in the previous literature (Carney & Gedajlovic, 1991; Navarro et al., 2006; Rondán et al., 2007). It is the third largest group (16.11%). This is the group with the second largest investment needed to open a franchised outlet. It is also the group with the longest contracts, perhaps as a consequence of mitigating the payments required. In this way the franchisee has a greater guarantee of recuperating its capital invested. Furthermore, having a longer contract fulfils the franchise's premise of setting up stable and long-lasting relations. It is also the group which has the least number of outlets.

- Strategic group 4. This group stands out for being made up of franchises which require a high investment to open an outlet. Moreover, the minimum surface of the outlet is the highest of all the groups, which is an entry barrier for many potential franchisees. This means that they are franchises with a low number of outlets compared to the firm's total outlets. They are firms which have been franchising for many years and accordingly know the market perfectly well. It is the fourth largest group (15.56%). This group can be assimilated to what in the previous literature has been called "conservative franchisors" (Carney & Gedajlovic, 1991).

- Strategic group 5. These are franchises which stand out for requiring a high population to open an outlet and for offering a short contract. This is the second largest group (20.28%). They do not have many outlets, nor do they demand high payments. They are chains that have been in the franchising system for quite a time. Given that this type of franchises is partially similar to those traditionally defined in some works of the previous literature (López & Ventura, 2001) as unsuccessful franchises (Carney & Gedajlovic, 1991; López & Ventura, 2001), they can be called "traditional franchises with little success".

Of all the configurations obtained, strategic group 2 - made up of "domestic franchises" - must be underscored, as it is the most numerous group. This shows that the franchisors which operate in Italy have strong confidence in the Italian market. This can be due to a great extent to the structure of the retail trade in Italy. When Italy's industrial and business system is compared to that of other European countries, two main characteristics of the Italian business structure are clearly noted: a high number of firms and the small size of most of them. This fragmented structure of the Italian production and distribution system has meant that franchising has been quickly chosen as a distribution mechanism (Ramírez & Quattrociocchi, 2009). This moreover brings about strong confidence in Italian franchising.

This result of confidence in franchising also corroborates the principles of agency theory and resource scarcity theory in franchising. Agency theory defends franchising as a way of business expansion. Through the franchising system, the franchisee has more incentives to maximise its efforts than in other systems of business expansion, as it is less induced to act opportunistically vis-à-vis the franchisor's interests. This situation is due to the franchisee being the owner of an outlet in which it has made significant investments of capital and time (Baena, 2010; Brickley & Dark, 1987). The groups obtained are to a greater or lesser extent consistent with agency theory as the non-utilisation of the franchise could enormously increase the costs of supervision, as Combs et al. (2004) point out. Franchising also enables both the franchisor and the franchisee to share the risk of the franchised units. The franchisees take on risks because their personal wealth and their human capital are linked to a franchised outlet. However, the franchisee reduces its hypothetical risk by making use of the franchisor's good business concept (Roh, 2002). Therefore, it also seems a good option to expand in the market through franchised units, as is shown in this work.

The results of this work are also supported by resource scarcity theory. This upholds that franchisors adopt franchising as a means of business development, mainly because they do not have sufficient own resources and wish to take advantage of those provided by franchisors (Sigué & Rebolledo, 2004). In this way, small franchisors with low capital can avoid the need to invest large quantities of their capital to expand their business model (Roh, 2002). With resource scarcity theory, entrepreneurs become franchisees to supply knowledge concerning the local market. According to this theory, the franchisors tend to maintain the possession of the company, buying back franchised establishments that are not very profitable (Combs et al., 2011). According to the results attained in this study, the most numerous strategic group in Italy is number 2, in which the chains have few own outlets compared to franchised outlets. This situation is hence endorsed in resource scarcity theory, as the franchisors use the contribution of the franchisees to expand their network.

Grant (1991) considers that the resources and capacities of a firm are the first sources for its profitability. So, for franchising chains to be able to establish a successful strategy they have to understand the relations between resources, capacities, competitive advantage and profitability, as well as to comprehend the mechanisms through which competitive advantage can be sustained over time.

To identify strategic groups it is necessary to previously identify the characteristics which lead franchisors to belong to one of the groups (Combs et al., 2004). In this case, it is important to point out that the majority of the variables used are easily manipulated by the management of the firm, which enables the strategy to follow to be able to change in a specific period of time.

To sum up, this work contributes information of great importance in order to analyse the competitive structure of franchising in Italy. The existence of different types of franchisors and the knowledge of different strategies is very useful both for the franchisors and for the franchisees.

Since franchising began, this way of doing business has been growing exponentially in many countries. Yet, research in the topic has perhaps not grown at the same rate. In some countries franchising is more consolidated than in others. There are also some countries where this business system is rarely

found. Therefore, studies which show the reality of franchising in many countries are needed. This work contributes to this and is a pioneer in the research on strategic groups in franchising in Italy.

Like all research, this work also has its limitations and these can help to orientate future research lines. Though the sample size is higher than almost all those used in previous works on franchising, it would be advantageous to increase this size in order to improve the validity of the results. The operational variables used are another important limitation. The work has employed practically the same operational variables utilised in the previous literature. This enables a comparison to be made between the different works, but it would be fitting to also use other variables, such as results or even satisfaction.

With respect to future research lines, apart from those stemming from the study's limitations, it would also be interesting to compare the strategic groups among countries with different levels of development in franchising. Also, from the economic point of view it would be interesting to study the profitability of the strategic groups identified.

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